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# Progressive Taxation in Theory and Practice.

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## INTRODUCTION.

The question of proportional *versus* progressive taxation has not been settled either in theory or in practice. If we look at the history of taxation we find repeated attempts made to introduce the progressive principle, from the early legislation of Solon down to the present time. And if we confine ourselves simply to the nineteenth century we see on the one hand indeed that the general sentiment in many places is in favor of proportional taxation, but on the other hand that almost every country has to some extent introduced the progressive principle into its actual tax system. We find this not only in monarchies like those of continental Europe, but in democracies like those of America, Australia and Switzerland. To give only a few instances: we find a progressive income tax in Prussia and many of the other German states, in Sweden, Denmark, and the towns of Holland and Belgium as well as in Switzerland; a progressive rental tax in France; a progressive property tax in Switzerland, Holland and Australia; a progressive inheritance tax in England, Switzerland, Australia, Canada and elsewhere. And even in the United States, which is supposed to be *par excellence* the home of proportional taxation, we have had a progressive property tax, like the federalist house tax, and some decidedly progressive income taxes, both

national and local; and we still have progressive income taxes and progressive taxes on the receipts of corporations, while the introduction of the progressive principle into the inheritance tax is being earnestly considered. It is hence idle to say that proportional taxation is the universal rule: on the contrary, practice seems to be tending more and more to the partial or complete adoption of the progressive principle. It will be useful, therefore, to pass in review not only the facts of the case, but the arguments on both sides in order to ascertain how, if at all, final harmony may be secured. And this discussion seems all the more necessary because no comprehensive attempt to present either the facts or the views of the chief representatives of the different schools has ever yet been made.<sup>1</sup>

A word first as to nomenclature. In one sense the distinction between proportional and progressive taxation is illogical, for progression is also a kind of proportion. In the one case the tax may increase by a proportionate increment of the tax, the rate remaining the same; in the other case the tax may increase by a proportionate increment of the rate, the rate changing *pari passu* with the amount.

<sup>1</sup>There is one essay on the history of the theory by Lehr, "Kritische Bemerkungen zu den wichtigeren für und wider den progressiven Steuerfuss vorgebrachten Gründe," in *Jahrbücher für Nationalökonomie und Statistik*, vol. 29 (1877), 1 and 190. But Lehr's essay is very confused and not very critical. Moreover it is composed chiefly of long extracts from the German and a very few of the French authors, almost entirely disregarding all other countries. Finally it is antiquated, because most of the valuable discussion has taken place in the last fifteen years.—The best book on the facts is Neumann, "Die progressive Einkommensteuer im Staats- und Gemeinde-Haushalt" (1874). But as the title indicates, this study is confined to the income tax. It, also, is antiquated.

In both cases we have a proportion, although the results of the proportion are very different. In a certain sense, therefore, the distinction ought to be drawn, not between proportion and progression, but between two kinds of proportion—regular proportion and progressive proportion. Again, the progression, if we adopt the term, may itself be either proportional or progressive, a proportional progression being an increase of the rate at an arithmetical ratio, a progressive progression being an increase at a geometrical ratio.

But passing by these rather subtle objections and accepting the commonly received distinction as sufficiently obvious for all practical purposes, let us see what is really meant by progressive taxation.

The term commonly used in England is graduated taxation. This is misleading. If a tax is not proportional but graduated, the graduation may be either upward or downward. Proportional taxation in the sense accepted means the same rate on all quantities of the thing taxed, whether it be property or income or anything else; graduated taxation may mean that the rate either decreases or increases as the amount of property or income increases. When the rate increases with the amount of the income, for instance, we have progressive taxation; and that is what the English writers generally mean by graduated taxation. But when the rate decreases as the income increases, the tax is also graduated. The technical term for such taxation is *regressive* taxation—what the French call upside-down progressive taxation (*progression à rebours*).<sup>1</sup> Graduated

<sup>1</sup>Buckingham, "National Evils and Practical Remedies" (1849), 338, speaks of a tax being "graduated the wrong way."

taxation in the wider sense thus includes both progressive and regressive taxation.

Finally there is a third method possible. The tax rate may increase up to a certain amount, but remain constant beyond that fixed point. There may be progression up to a definite limit, and proportion thereafter. The usual term for this is *degressive* taxation.<sup>1</sup> The proportional rate is regarded as the normal rate, but on all sums counted downward below this limit the tax rate gradually diminishes. Degressive taxation is also graduated taxation, and one of its most common forms.

Whether we call the tax progressive or degressive depends entirely on the point from which we count up or down; for even in progressive taxes the progression almost universally stops at a certain limit. The highest point known to history is thirty-seven and a half per cent. It could not conceivably exceed one hundred per cent. Nevertheless from one point of view the distinction between progression and degression is tenable. In degression the ideal is proportional taxation, although a concession is made, through lower rates or exemptions or abatements, to the poorest classes who ought theoretically to pay the same rate but who are deemed to be unable to do so. In progression, the ideal is not proportional taxation; the wealthier classes pay higher rates because according to the theory they ought to assume a more than proportional burden. In progressive taxation graduation generally begins from the point

<sup>1</sup>The term "progressional tax," used in a somewhat similar sense, is due to Joseph Garnier. It has not been generally adopted, and does not mean exactly the same thing as a degressive tax. It might best be translated as a moderate and limited progressive tax, as we shall see when we discuss Garnier. See below p. 123.

at which in the case of degressive taxation graduation stops and proportion begins. Still this precise point at which graduation begins is somewhat arbitrary. What one person would call degressive taxation another would call progressive taxation. But while degressive and progressive tax-rates have much in common, and are really two different ways of expressing what is essentially the same idea, degressive and regressive tax-rates are, in one sense, as we have seen, the very opposite of each other.<sup>1</sup>

The terms "progressive tax" or "graduated tax" are also used in another way. If a different rate is levied on different kinds (not different amounts) of property or income, we speak not of a graduation but of a differentiation of the tax. But if different rates are levied on inheritances or bequests according to the degree of relationship of the heir or successor, the tax is sometimes called a "graduated" or "progressive" tax. In ordinary cases progression denotes a changed rate for altered amounts; in this case it denotes changed rates for the same amounts going to different persons. In the remainder of this monograph the term will be used in the first and ordinary sense.

The question of progressive taxation is not confined to the income tax. We may have, and often do have, progression in other direct taxes like the property tax, the house tax, the land tax, and the

<sup>1</sup>Ely, "Taxation in American States," 77, uses the term "digressive," which is erroneous and unmeaning. Moreover his explanation itself is inadequate. We have degressive taxes not only when a certain amount is absolutely exempted, as he says, but also when the lower amounts below a moderate limit are taxed at a lower rate. In his "Outlines of Economics" (1893), 361, Professor Ely revises the nomenclature, but still gives the erroneous explanation. The statement of Bastable, "Public Finance," 292, is also inexact.

inheritance tax. There may even be progression in indirect taxes, in the sense of articles of luxury being taxed at increasingly greater rates than articles of comfort or necessity.<sup>1</sup> But the discussion has been limited almost entirely to direct taxation, and usually even to the income tax. There is of course no good reason why this should be done. In the following discussion we shall treat of progression in general, taking up in turn the history and actual condition of progressive taxation, the theory of progression in its historical and positive aspects, and the applicability of progression to the conditions as they exist in the United States at the present time.

<sup>1</sup>In a very ingenious work by a French engineer, Louis-Léger Vauthier, "*De l' Impôt Progressif, Etude sur l' Application de ce Mode de Prélèvement à un Impôt quelconque*" (1851), an attempt is made to show how the progressive principle may be logically and "arithmetically" applied to any kind of tax. See esp. chap. 6, and the formulas pp. 87-91.

## I.

### THE HISTORY OF PROGRESSIVE TAXATION.

The earliest example of progressive taxation of which we have any knowledge is found in Athens. The facts are, however, not entirely beyond dispute. The direct tax (*εισφορά*) as levied in the time of Solon (B. C. 596) was a tax on property chiefly in the form of land, and was levied on the basis of the produce.<sup>1</sup> The population was divided into four classes (*τιμήματα*), as follows:

1. The *Pentakosiomedimni*, or those whose product was valued at five hundred measures of dry products (*medimnus*) or liquid products (*metrete*).

2. The Knights (*ιππῆς*), or those who produced three hundred measures and could support a horse.

3. The *Zeugitae*, or owners of a yoke of cattle, who produced two hundred (or, according to others, one hundred and fifty) measures.

4. The *Thetes*, who produced less than the above.

Solon's design seems to have been to estimate the net produce of land at one-twelfth of the property. Reckoning a measure of produce as worth one drachma (about  $17\frac{1}{2}$  cents), the property of a *pentakosiomedimnus* was assessed at a talent, *i. e.*, twelve times 500 measures or 6,000 drachmas. According to the same calculation the value of a Knight's prop-

<sup>1</sup>Boeckh, "Public Economy of the Athenians," book iv, chap. 5 (pp. 639-665 of the American edition).



erty should have been fixed at twelve times 300 measures or 3,600 drachmas, and that of the next class at twelve times 150 measures or 1,800 drachmas. But the progressive (or degressive) principle was introduced by assessing the property of the Knights at only 3,000 drachmas, and that of the *Zeugitae* at only 1,000 drachmas, while the lowest class was entirely exempted from taxation. In other words, instead of changing the rate of the tax, a change was made in the assessable portion of the property. The highest class was assessed at the full valuation of the property; in the second class the appraised valuation was fixed at five-sixths of the value of the property; while in the third class only five-ninths of the property was assessed. The rate remained the same, but the ratable valuation changed. The tax, therefore, was graduated.

The next account of the tax that has come down to us is during the archonship of Nausinicus (B. C. 380), although the tax may have been levied occasionally in the interval. By this time the property assessed included not only real estate but personalty. There were still four classes, but with no exemption for the lowest class and with a graduation in the tax. While there is some doubt as to the exact figures, it seems probable that the tax was now a progressive income tax. The rate was one per cent on the lowest class composed of all those with an income below 25 minas (about \$427); five per cent on the second class, with incomes from 25 to 50 minas; ten per cent on the third class, with incomes from 50 to 100 minas; and twenty per cent on the

fourth class, with incomes above 100 minas.<sup>1</sup> We possess no further details of its workings.

In Rome, during the republic as well as the empire, nothing is known of any form of progression. Direct taxation played a very small rôle in the fiscal economy,<sup>2</sup> and there is no evidence to show that a graduation of the tax was ever attempted. We must remember that in Greece, as well as in Rome, direct taxes were levied only as a last resort and in the most extraordinary exigencies.

With the growth of direct taxation in the middle ages we find several examples of progression. This was due in great part to the growth of the democratic spirit. It is thus natural that the principal mediæval progressive taxes originated and developed in the towns and communes where the democratic spirit asserted itself most vigorously. It is true, indeed, that there are a few isolated examples of a progressive scale in the general state taxes. But these were, in the main, class taxes or classified poll taxes, where the upper classes were made to bear the higher charges on the humanitarian principle of "le fort portant le faible," as it is expressed in the

<sup>1</sup>This is the explanation given by Rodbertus, "Untersuchungen zur Geschichte der römischen Tributsteuer seit Augustus," in Hildebrand's *Jahrbücher für National-Oekonomie und Statistik*. Band viii (1867), 453 *et seq.* Although the figures are somewhat arbitrary, his explanation is far preferable to the very involved interpretation of Boeckh, who calls the tax "not a pure income tax, but, as it were, composed of a property and income tax," without clearly explaining the connection. "Public Economy of the Athenians," 669. Parieu, "Traité des Impôts," i, 416, who gives an account of this tax based on Boeckh's explanation, wrote before Rodbertus had published his investigations.

<sup>2</sup>See my article "The General Property Tax," in *Political Science Quarterly*, vol. v (1890), 43-46.

French and English laws, or as the Latin ordinance of 1367 reads, "ita quod pauperes per divites supportentur." In France we find this especially in the case of the *fouages*. A *fouage* was a tax or *taille* assessed on the *feux* or hearths, *feu* meaning a family or number of persons living under the same roof. A survival of this is the Sicilian *focatico* which has been creating so much disorder during the past few months. The tax was originally so much per *feu* or family. But this became manifestly unjust as the property of the different families began to vary considerably. Thus the custom arose of levying the tax at different rates. Not only were the townsmen assessed at a higher sum than the peasants, but the rate levied on different individuals was graded. Unfortunately the assessors generally inverted the legal principle and made the poor pay higher rates than the rich.<sup>1</sup>

Based partly on these French laws were the English graduated poll tax of 1379 (in which the tax ranged from 4*d.* to £6, 13*s.* 4*d.*), and the poll tax of 1380 (which ranged from 2*d.* to 20*s.*)<sup>2</sup> The rates of the tax of 1379 were repeated in 1513, and slightly increased in 1614;<sup>3</sup> while the same principle was applied at occasional intervals during the seventeenth century,<sup>4</sup> the last instance of the classified poll tax being in 1698. In practice, however, the poll taxes were levied chiefly on the poor. They never became a part of the regular revenue in England, as they did in France.

<sup>1</sup>Clamageran, "Histoire de l'Impôt en France" (1867), i, 402.

<sup>2</sup>Dowell, "A History of Taxation and Taxes in England," 2nd. ed. (1888), i, 94.

<sup>3</sup>*Ibid.*, i, 129, 161.

<sup>4</sup>In 1660, 1666, 1677 and 1689-1698. *Ibid.*, ii, 29, 45.

In the mediæval property and income taxes, the progressive scale is likewise occasionally found. Thus the French *cinquantième*, or fiftieth, of 1295 was in part graduated. It was a combination of a property and an income tax. All persons having less than one hundred sols property paid a tax on their income from wages. On yearly wages the tax was a day's wage or one three hundred and sixty-fifth; on monthly or daily wages, the tax was fixed at six deniers. On property up to ten livres the rate of the tax was one-half of one per cent; from ten to one thousand livres the rate was two per cent, or a fiftieth (whence the name); while above one thousand livres the tax was fixed at twenty livres.<sup>1</sup> It was thus a somewhat singular combination of degressive, proportional and fixed taxation. The tax was again levied in 1297 and 1301.

In England we find a few isolated examples of such property and income taxes. Thus in 1435 a graduated income tax was levied in three classes, the rates being 6*d.*, 8*d.* and 2*s.* in the pound respectively, according as the yearly income was below £100, between £100 and £400, or above £400. Incomes below £5 were exempt. That is, the rates were two and a half per cent, three and a third per cent, and ten per cent.<sup>2</sup> In 1449-1450 the tax was repeated, with slight changes, the rates now being two and a half per cent, five per cent, and ten per cent, with the limit of exemption reduced to £1.<sup>3</sup>

In the mediæval German empire progressive general property taxes are also occasionally found, as in

<sup>1</sup>Clamageran, "Histoire de l'Impôt en France," i, 314.

<sup>2</sup>Dowell, *op. cit.*, i, 113.

<sup>3</sup>*Ibid.*, i, 116.

the case of the *Reichsabschied* of 1512, when a progressive tax was imposed in order that "the poor should not be so grievously burdened."<sup>1</sup>

On the other hand, the general state taxes were sometimes regressive, not progressive. Thus the French ordinance of 1356 provided for a subsidy on incomes from real estate, salaries and mortgages. The rate was for all revenues above 100 livres, four livres for the first 100 and two livres for each succeeding 100 francs; between 40 and 100, two livres; between one and ten livres, one livre.<sup>2</sup> That is to say, if we take the lower figures in each class the rate would be ten per cent for 10 livres, five per cent for 40 livres, four per cent for 100 livres, and two per cent above 100 livres. Moreover the richer classes were exempt on all income above 1,000 or 5,000 livres, according as they were composed of non-nobles or nobles. So again in the next year a similar subsidy was granted with a rate of four per cent on revenues up to 100 francs, and two per cent on revenues exceeding that amount. So also in England Henry VIII levied an income tax on the regressive principle. Incomes were divided into four classes, £1-5, 5-10, 10-20 and over £20. The rates were in the case of movables 4*d.*, 8*d.*, 1*s.* 4*d.* and 2*s.* respectively; in the case of immovables 8*d.*, 1*s.* 4*d.*, 2*s.* and 3*s.* respectively.<sup>4</sup>

Progressive taxation was thus by no means a distinguishing feature of general state taxation.

<sup>1</sup>"Damit der Arme nicht so hochbeschwert und dem Reichen auch aufgesetzt werde, das er tragen möge," Judeich, "Die Rentensteuer im Königreiche Sachsen" (1857), 6.

<sup>2</sup>Clamageran, *op. cit.*, i, 368.

<sup>3</sup>*Ibid.*, i, 367.

<sup>4</sup>Vocke, "Geschichte der Steuern des britischen Reichs" (1866), 510. Dowell does not mention this tax at all.

Political and economic relations were dominated by the feudal system, and the feudal system was essentially aristocratic in its nature. The financial conditions, as a reflex of the economic situation, necessarily had an aristocratic imprint.

In the communes and towns on the other hand there was more play for the democratic movement. At first when property was fairly equal, the ideal of justice seemed to be a proportional general property tax, which is found almost universally in England as well as on the continent, whenever resort was made to extraordinary sources of revenue.<sup>1</sup> In several towns, however, a little deeper analysis was made of the underlying principle, and the general property tax was up to a certain point regressive, not progressive. The explanation is not difficult. Individual faculty or ability to pay taxes was supposed to be in some manner fixed by individual income. Income from property is one kind of income—funded income as it is called in modern times. But income from labor—or unfunded income—was also deemed to constitute a portion of taxable faculty. Many towns hence added to the general property tax a tax on the income from labor. That, as we know, was the method transplanted from Europe to the New England colonies. But other towns sought to attain the same result in another way. It was assumed—and under the conditions of the time the assumption was roughly accurate—that the smaller the income from property the greater the income from labor, or in other words that the minor burghers who worked for their living had little, if any, property; and that up to a certain point the more property a man had the less he would

<sup>1</sup>See my article, "The General Property Tax," in *Political Science Quarterly*, vol. v (1890), 47-52.

be apt to resort to manual labor. Hence, in the absence of an income tax, it would be necessary to assess the smaller property at a slightly higher rate than the larger property; for the higher rate on the smaller property would represent a property tax plus a labor-income tax, while in the case of the larger property the rate would represent simply a property tax. In this way it was thought that a rough proportion would be attained.

The best example of this method of taxation is found in the mediæval German towns. Thus in Basel, whose financial history has been elaborately investigated, we find that the extraordinary property taxes were levied on this principle. In 1429, for instance, a tax was assessed at the general rate of two per cent on the highest member of each class. But on all property below two thousand gulden, the tax was divided into ten classes, the rate rising in each inferior class until in the lowest class (ten gulden and below) the tax was fixed at such an amount that the rate exceeded seventeen per cent on the ten gulden.<sup>1</sup> Of the 2,536 tax payers only

<sup>1</sup>The law fixed not the rates, but the lump sums payable on each class of property assessed. The rate would thus differ according as the property was at the bottom or the top of the class. The following table will show the rates:

Gulden.		Per cent.
1	0- 10.....	1000 -17.1
2	10- 50.....	45 -10
3	50- 100.....	14.7- 7.5
4	100- 150.....	9.9- 6.6
5	150- 300.....	13.2- 6.6
6	300- 500.....	8.3- 5
7	500- 750...	5.9- 4
8	750- 1000.....	4.6- 3.5
9	1000- 1500.....	3.9- 2.6
10	1500- 2000.....	2.9- 2.2
11	2000- 2500.....	2.4- 2

*Cf.* Schönberg, "Finanzverhältnisse der Stadt Basel im xiv. und xv. Jahrhundert" (1879), 175.

126, or five per cent, possessed property over 2,000 gulden, although they paid 32 per cent of the tax; while the tax payers in the two lowest classes, 48.9 per cent of the total number, paid only 10.8 per cent of the tax. Again in 1451 the rate of the property tax was one per cent for the first 100 gulden and one-half of one per cent for every successive 100 gulden, thus constituting a slightly regressive tax.<sup>1</sup> It will not be necessary to go into the details of the other instances, as the principle was about the same.

In many of the mediæval towns this originally democratic character was modified by aristocratic and feudal influences; and even the ostensible proportionality of taxation frequently became a real inequality, pressing more heavily on the poorer classes. This was probably true in the great mass of cases. We know that it was the case in the German towns,<sup>2</sup> as well as in the French communes. In the latter instance this was due not only to the natural proclivities of the assessors, but also to the frequent purchases of exemption from taxation. And when the history of English local finance comes to be written, the same will probably be found to be the case there. In the provincial income taxes in France during the sixteenth century it was even provided that no one could be held to pay more than a definite sum, no matter how great his fortune. In Lille this limit was fixed at one thousand florins. The wealthier the tax payer, the lower the rate of the tax.<sup>3</sup>

<sup>1</sup>Schönberg, "Finanzverhältnisse der Stadt Basel im xiv. und xv. Jahrhundert," 284.

<sup>2</sup>Zeumer, "Die deutschen Städtesteuern im xii. und xiii. Jahrhundert" (1878), 90, 91.

<sup>3</sup>Houdoy, "L'Impôt sur le Revenu au xvi. siècle. Les États de Lille et le Duc d'Albe" (1873), chap. iii, 345.



In some places, however, where the differences of wealth became very great the democratic spirit asserted itself at times more vigorously. This is especially true of the Italian republics at the period of their great commercial prosperity, when the conditions of the towns resembled those of modern times more closely than at any other period or in any other country. The Italian cities, and especially Florence, are therefore the chief examples of actual progressive taxation in the middle ages.

In Florence, as in the other mediæval towns, the general property tax was employed whenever it became necessary to secure extraordinary revenues. The original property tax or *estimo* was supplanted in 1427 by the *catasto*, which was a tax on the capitalized value of incomes from movables as well as immovables. The capitalization was made at different rates. This is not the place to trace the various steps in the development which finally led to the institution of the *decima* or tenth, a tax on the income from immovables only. What interests us here is not the fortune of the general property tax,<sup>1</sup> but the application of the progressive principle, under the general name of *scala*. One of the chief reasons for the introduction of progression was the evasion of the proportional tax on personalty by the wealthy. It was hoped in this way to make the rich pay at all events their share of the burden, and thus in some sort to re-establish the balance.

<sup>1</sup>A history of the Florentine tax will be found in G. Canestrini, "La Scienza e l'Arte di Stato, desunta dagli Atti ufficiali della Repubblica Fiorentina e dei Medici. Ordinamenti Economici, Della Finanza. Parte I, L'Imposta sulla Ricchezza Mobile e Immobile." Firenze (1862).

The Medici, of course, eagerly seized upon this democratic reasoning and converted the graduated tax into an engine for ruining their wealthy rivals. But what was begun by the Medici was continued by the democratic government which supplanted them.

The progressive rate was first applied to the general property tax or *catasto* in 1443. The tax was known as the *graziosa* or "gracious tax," because so favorable to the lower classes who had hitherto borne the chief burden of the tax. The "gracious tax" divided the tax payers into fourteen classes, the rate varying from four to thirty-three and a third per cent of the income, which was then capitalized.<sup>1</sup> To this was added a poll tax, likewise in fourteen classes, varying from one to eighty *soldi*. In 1447 the second progressive tax was levied. The number of classes remained the same, but the tax was now levied only on income and the rates now varied from eight to fifty per cent. This was known as the *decina dispiacente* or "displeasing tax,"<sup>2</sup> and continued at these rates for several years.

In 1480 the *scala* or progressive rate was applied not to the general property or income tax, but to the new tax on income from immovables only. There

<sup>1</sup>The six classes up to 300 florins were graded by differences of 50 florins; from 300 to 700 florins the steps were 100 florins; then came three additional classes with steps of 300, 200 and 300 florins respectively, until the final class included revenues of 1500 florins and over.—Canestrini, *op. cit.*, 217.

<sup>2</sup>It was called *decina* because assessed by ten officers. The distinction between a *piacente* and *dispiacente* was as follows: Old assessment rolls were often brought into requisition. When the assessor selected the highest roll, the tax was "displeasing." When the choice was left to the tax payer, it was "pleasing." *Ibid.*, 186.

were now nine classes with rates from seven to twenty-two per cent, and there was joined to this a graduated poll tax. Henceforth the progressive rate was generally applied to all the extraordinary direct taxes, whatever their name or form. Sometimes it was applied to the *catasto* or capitalized general income tax, sometimes and more frequently to the *decima* or income tax on realty, sometimes to both the *catasto* and the *decima* when they were levied simultaneously. All kinds of combinations were made. At times the rates were definitely fixed according to what was called the *regola* or *norma*; at other times the whole matter was left to the discretion of the assessors and hence known as *l'arbitrio*. In the intervals between the official valuations of the *catasto*, the old lists were often taken out and the individual assessments arbitrarily increased or decreased. The tax was then known respectively as *l'aggravo* or *lo sgravo*.<sup>1</sup> Sometimes the rate of progression was high, sometimes it was low, according as the whole scale, a half scale, or a third of a scale was adopted.

The history of the Florentine *decima scalata* has been made use of as a warning example of the inherent evils of progressive taxation. It can certainly not be denied that the results were disastrous, that individuals were frequently reduced to beggary, and that forced sales of property to pay the taxes were of common occurrence, notwithstanding the fact that as in all early times the direct taxes were regarded as compulsory loans to the government, and that the tax payers were inscribed to the extent of the taxes as creditors of the state. M. Léon Say especially waxes eloquent over the abuses of the progressive

<sup>1</sup>*Op. cit.*, 185.

system.<sup>1</sup> But he forgets to inform us that the authority from whom he takes all his facts expressly states that the fault lay not so much in the graduation, as in the frequency and enormous extent of the tax.<sup>2</sup> Although Canestrini himself does not favor progressive taxation, he is fair-minded enough to say that we must distinguish between the progressive tax under modern conditions and the abuse of the principle by the Medici in mediæval Florence.<sup>3</sup> In fact we may go further and say that the real source of the trouble was not the fact of progression, but the utter arbitrariness in the whole administration of the direct tax. It was the discretion left to the officials in levying the direct tax on personalty and on income which was mainly responsible for the actual abuses. It is perhaps true that the existence of the graduated scale rendered it somewhat easier for the government to ruin its adversaries, and there is no doubt that the rate of progression was at times extravagant. But it is completely erroneous to assume that the proportional rate denoted certainty, while the progressive rate involved uncertainty. In both cases the assessments were entirely arbitrary; and where the assessments are arbitrary there is practically nothing to choose between proportion and progression. The evils of progressive taxation under

<sup>1</sup>Léon Say, "La Question des Impôts," i (1886), chap. 4.

<sup>2</sup>Canestrini, *op. cit.*, 204: "Inoltre vuolsi notare che non era precisamente la scala o la progressione dell' imposta che atteriva e rovinava i piu ricche, ma bensì la soverchia frequenza e la intollerabile enormezza delle imposte."

<sup>3</sup>"Il perchè degli economisti dovrebbero distinguere il principio della scala e la sua applicazione nelle condizioni speciali della Repubblica fiorentina, e l' abuso del principio e della pratica di essa per opera dei Medici, dalla teorica e dalla sua attuazione nelle presenti condizioni sociali e politiche degli Stati." *Ibid.*

the late Medici were no worse than the evils of proportional taxation under their predecessors; the abuses of progressive taxation in Florence were not a whit more glaring than the abuses of proportional taxation under the later Roman emperors.

Even after the expulsion of the Medici the republic, notwithstanding the reaction of the first few years, soon reintroduced the system of progressive taxes under the stress of political complications. The scale of graduation was somewhat reduced and some of the abuses were rectified. We find the *scala* from 1499 to 1506 and again during the troubles of 1529. But with the capitulation of Florence in the next year the system of progressive taxation came to an end.

During the seventeenth century we hear but little of progressive taxation. During the eighteenth century, however, the instances become more frequent, until the revolution of 1789, and especially that of 1848, give the signal for a far more wide-spread application of the principle during the present century. In the first half of the eighteenth century there are to be noted a few examples of progressive taxation levied on extraordinary occasions. Thus in Holland a classified income tax was imposed in 1748, varying from one to two and a half per cent.<sup>1</sup> So in 1742 the Elector Frederick Augustus, of Saxony, established a progressive general income tax, in six classes, with rates varying from one to eight per cent. The tax was so arranged that each increment of the income paid a separate rate according to the class to which

<sup>1</sup>Parieu, "Histoire des Impôts généraux sur la Propriété et le Revenu" (1856), 88, quoting from Engels, "De Geschiedenis der Belastingen in Nederland."

that increment belonged.<sup>1</sup> The tax lasted until 1746, and was replaced by a classified poll tax. In Geneva, on the other hand, where the extraordinary property tax of 1690 was levied on the progressive principle, graduation was imposed as a permanent system in the *taxe des gardes*, which was first levied in 1709. The rates were one-half of one per cent for the first 10,000 *écus*, one per cent for the surplus.<sup>2</sup>

During the eighteenth century the principle of progression was applied within somewhat narrow limits to other taxes besides those on income. Thus the tax on inhabited houses in England, introduced by Lord North in 1778, provided for rates of 6*d.* and 1*s.* in the pound respectively, according as the annual value of the house was below or above £50. In 1779 the scale was slightly altered and the tax graduated in three classes at 6*d.*, 9*d.* and 1*s.* respectively. Although the three classes were maintained the rates were somewhat changed in the following years, and in 1808 they were fixed at 1*s.* 6*d.*, 2*s.* 3*d.* and 2*s.* 10*d.* in the pound respectively. Minor alterations were made during the next two decades, until the tax itself was repealed in 1834. When the tax was reimposed in 1850 it was no longer graduated according to rental value but simply classified according to the purpose for which the building was used.<sup>3</sup>

<sup>1</sup>For instance an income over 25,000 thalers, the highest class, would pay one per cent for the first 1,000, two per cent for the next 9,000, three per cent for the next 2,000, four per cent for the next 3,000, five per cent for the next 5,000, six per cent for the next 5,000, and eight per cent for the remainder. Judeich, "Die Rentensteuer im Königreiche Sachsen," 12.

<sup>2</sup>Schanz, "Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19ten Jahrhunderts," iv, 195, 196.

<sup>3</sup>Dowell, "History of Taxation and Taxes in England," iii, 178-192.

When the direct income taxes in France were abolished by the Revolution, an attempt was made in 1791 to substitute for them a so-called "personal and movables tax," levied in great part on the basis of house rent. The rental value was regarded as a rough presumptive index of the occupier's income, on the assumption that the greater the income the smaller the portion devoted to house rent. In order, therefore, to attain a relatively proportional rate on the actual income, the scale of the rental tax was made progressive. The rate of the tax was the same in every case—five per cent—but the houses were divided into eighteen classes. In the lowest class, with a rental value of 100 livres or less, the income was assumed to be twice the rental value; in the next class, with rental value to 500 livres, the income was assumed to be three times as great; and so on until in the eighteenth class, comprising rental values of 12,000 livres, the income was assumed to be twelve and a half times as great. In other words, the occupier of a 500 franc apartment paid the five per cent tax on 2,000 francs; the occupier of a 12,000 franc apartment paid the tax on 150,000 francs.<sup>1</sup>

This French tax served in part as the model of the progressive direct tax imposed by the federal government of the United States in 1798. Secretary Wolcott's plan for the direct tax comprised three taxes: on dwelling-houses, on slaves and on lands. He proposed in the case of houses a progressive tax with a fixed tax for each class of houses.<sup>2</sup> Hamilton's plan

<sup>1</sup>Stourm, "Les Finances de l' Ancien Régime et la Révolution," i (1886), 250.

<sup>2</sup>*Cf.* the plan in "American State Papers, Finance," i, 589. Hamilton's plan will be found in his works (Ford's edition) iii, 53. The plan actually adopted was that of the act of July 14th, 1798.

was a progressive tax graduated according to the number of the rooms. The plan finally adopted was due to Gallatin, who suggested a progressive tax according to market value. But the tax differed from the French tax of 1791 in that the progression attached not to the coefficient, but to the rate itself. That is, the houses were divided into eight classes, the upper limit of each class below the eighth being 1, 3, 6, 10, 15, 20 and 30 thousand dollars rental value, while the rate of the tax varied from two to ten per mill respectively. This was the only progressive tax ever levied by the United States government until the period of the Civil war.

Although the scheme of progressive taxation in general was proposed during the French Revolution, not only by communists like Baboeuf, but by conservative thinkers and statesmen like Cambon, the plan was not adopted except through the indirect method of the rental-value tax just mentioned. For in France the Revolution itself was in part due to the opposition to the direct income and property taxes of the *ancien régime*. In the other continental countries, where the abuses had been somewhat less glaring, we notice the growth of a tendency toward the adoption of the progressive principle. Thus in the Helvetic Republic several pamphlets were written in favor of adopting the French theories,<sup>1</sup> and the experiment itself was actually tried in 1800, although in a much modified form. By the law of that year salaries were taxed at one per cent and two per cent respectively, according to their amount. Similar laws were adopted in the cantons of Lucerne and Schaffhausen.<sup>2</sup>

<sup>1</sup>*Cf.* the details in Schanz, "Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19ten Jahrhunderts," i, 9.

<sup>2</sup>*Ibid.*, i, 111.



In most of the continental countries, however, the occasional high progressive taxes of this period were due to the extraordinary straits in which the governments found themselves. Thus in Holland, in 1796, the progression was so severe as to become almost a confiscation. The rate of the income tax varied from three per cent to thirty-seven and a half per cent. Although this lasted only a year, it was followed in 1798 by a progressive tax, ranging from four to ten per cent; in 1800, from two to seven per cent; and in 1804, from one to twenty per cent.<sup>1</sup> In Austria a "class" tax was imposed in 1799, and continued with a few changes until 1830, dividing incomes into twenty-three classes, with rates varying from two and a half to twenty per cent. In Baden the produce and property tax (*Erwerbs-und Vermögensteuer*) of 1808-1813 taxed the incomes at rates varying from one-half of one per cent to six per cent; while in Russia the rate of the extraordinary property tax of 1812 varied from three to five per cent.<sup>2</sup>

With a few exceptions, however, the principle of progression was not applied to the regular taxes during the first half of the nineteenth century. The one important exception is the income tax in England; but even here the principle applied was, and is, that of degression, rather than of progression. That is to say, the normal rate is the proportional rate, but on incomes below a certain small amount the

<sup>1</sup>*Cf.* E. van Voorthuisen, "De directe Belastingen inzonderheid die op de Inkomsten. Eene staatshuishoudkundige Proeve" (1848), ii, 193-227.

<sup>2</sup>These examples may be found in Parieu, "Histoire des Impôts généraux sur la Propriété et le Revenu," 152-154. Also in his "Traité des Impôts," i, 442 *et seq.*

rates are slightly moderated. The plan was first introduced by Pitt in 1798, in the Triple Assessment.<sup>1</sup> As to the tax-payers who possessed taxable carriages, horses or men servants, the assessment of the previous year, if under £25, was increased three times; from £25-30, three and a half times; from £30-40, four times; from £40-50, four and a half times, and over £50 five times. As to those paying taxes on inhabited houses, windows, dogs, clocks or watches, the assessments of the previous year were altered or diminished as follows:

£ 1 - 2 .....	$\frac{1}{4}$	12½-15 .....	2½
2 - 3 .....	$\frac{1}{3}$	15 -20 .....	3
3 - 5 .....	$\frac{3}{4}$	20 -30 .....	3½
5 - 7½ .....	1	30 -40 .....	4
7½-10 .....	1½	40 -50 .....	4½
10 -12½ .....	2	over 50 ...	5

As to those paying taxes on lodgings or shops the assessment was changed as follows:

£ 3 - 5 .....	$\frac{1}{10}$	12½-15 .....	$\frac{3}{4}$
5 - 7½ .....	$\frac{1}{5}$	15 -20 .....	1
7½-10 .....	$\frac{1}{4}$	20 -25 .....	1½
10 -12½ .....	$\frac{1}{3}$	25 -30 .....	1½
		over 30 .....	2

The total payment was so arranged that incomes under £60 were exempt, incomes from £60-200 paid from  $\frac{1}{20}$  to  $\frac{1}{10}$ , *i. e.*, five-sixths of one per cent to ten per cent, while all incomes over £200 paid ten

<sup>1</sup>As the statements of Dowell, "History, etc.," ii, 220 and iii, 87, are very incomplete and partly inexact the official figures are here given as contained in the First Report from the Select Committee on the Income and Property Tax (1852), 1-5, and in the act itself, Statute 38 George II, chap. 16, "The Aid and Contribution Act."

per cent.<sup>1</sup> Parents of four to seven, eight to nine, and ten or more children could claim ten, fifteen and twenty per cent abatement respectively.

When Pitt introduced his general income tax in 1799,<sup>2</sup> after the comparative failure of the Triple Assessment, the same arrangement was retained as to the total exemption of £60, as well as to the graduation between £60-200, and the ten per cent rate on all incomes over £200. Minor changes were made in abatements allowed for children. When the general income tax was repealed and the system of schedules introduced in 1803, the system of graduation was somewhat altered.<sup>3</sup> £60 were free as before; from £60-70 the rate was three pence in the pound, and the rate increased one penny for every additional ten pounds income, until £150 was reached, above which the rate was uniformly one

<sup>1</sup>The exact figures were as follows:

On incomes from

£ 60- 65	the tax was not to exceed	$\frac{1}{120}$	of the income.
65- 70	" "	$\frac{1}{95}$	" "
70- 75	" "	$\frac{1}{70}$	" "
75- 80	" "	$\frac{1}{65}$	" "
80- 85	" "	$\frac{1}{50}$	" "
and so on to 100-105	" "	$\frac{1}{40}$	" "
105-110	" "	$\frac{1}{38}$	" "
110-115	" "	$\frac{1}{35}$	" "
and so on to 150-155	" "	$\frac{1}{20}$	" "
155-160	" "	$\frac{1}{19}$	" "
160-165	" "	$\frac{1}{18}$	" "
and so on to over 200	" "	$\frac{1}{10}$	" "

<sup>2</sup>"The Tax on Property and Employments," 39 George III, chap. 13.

<sup>3</sup>"An Act for granting a Contribution on the Profits arising from Property, Professions, Trades and Offices," 43 George III, chap. 122.

shilling in the pound. In 1805 one-quarter was added to the rates, but the graduation in the smaller incomes still proceeded on the same principle. In 1806, when the rate of the tax was fixed at ten per cent, the limit of total exemption was decreased from £60 to £50, while the system of abatement was so changed that for every pound income below £150 one shilling tax should be deducted. Thus at

£50	the charge	was	100s.	The abatement	was	100s.	The tax	was	0s.
51	"	"	102s.	"	"	"	99s.	"	3s.
52	"	"	104s.	"	"	"	98s.	"	6s.
149	"	"	298s.	"	"	"	1s.	"	297s.
150	"	"	300s.	"	"	"	0s.	"	300s.

Moreover the abatements were limited to incomes from labor, and the allowance for children was abolished, because of the frauds practiced.

The tax was repealed in 1816. When it was reintroduced in 1842 the system of graduation was not adopted, but all incomes below £150 were entirely exempted. In 1853, however, the principle of graduation was again applied, but in a simplified form. The limit of total exemption was reduced to £100; on incomes from £100–150 the rate was 5*d.* in the pound; on incomes above £150 it was 7*d.* In 1863 another change was made by which the rate was made the same on all incomes, but with the proviso that incomes below a certain sum should be absolutely exempt, while on incomes up to another limit a definite and unchangeable amount should be deducted. This principle still exists at present, although the figures have been slightly altered. Thus in 1863 £100 were exempt, while on incomes between £100–200 an abatement of £60 was made. In 1873 an abatement of £80 was

allowed on incomes from £100 to £300. Finally in 1876 the limit of absolute exemption was again raised to £150, while on incomes between £150-400 an abatement of £120 was made. This is the present system.

In England, therefore, the principle of graduation has been applied only in the sense of a degressive tax. The general theory is that of proportional taxation, but a slight allowance is made on the smallest incomes.

Of a somewhat different character are the progressive taxes of the second half of the nineteenth century in continental Europe, America and Australia. Here we often find a decided progression with occasional marked differences between the higher and the lower rates. In Germany the progressive principle has been introduced in both commonwealth and local finance. The most important instance is that of the Prussian income tax. Originally instituted in 1820 as a class tax, or species of graduated poll tax, it was divided in 1851 into a class tax and a classified income tax. This latter tax was so arranged that the lowest income in each class paid a rate of three per cent. In 1873 the system was slightly modified, the rate in the class tax varying approximately from three-quarters of one per cent to two and a half per cent, while in the income tax the maximum was still three per cent. Finally, in 1891 the class tax was abolished and the income tax was made somewhat more progressive than the class tax had been. Incomes below 900 marks are exempt; incomes from 900-1050 marks pay six marks tax, *i. e.*,  $\frac{6.2}{100}$  per cent of the mean. The scale is then so fixed that the rate gradually rises until four per cent is reached at an income of

100,000 marks, beyond which point the rate remains the same.<sup>1</sup>

While a few of the smaller German commonwealths have a proportional income tax, almost all of the income taxes in the larger states are arranged on the progressive principle, some, as in Prussia, with fixed taxes for each class of income, others with fixed rates for each class. But in almost every case the number of classes is large, so that the increase of rate is very gradual.<sup>2</sup> In Baden the progressive principle is applied in a peculiar way through what is known as *Steueranschlge*, or taxable valuations. For each class of assessed income only a certain sum is taxable, the amount being only one-fifth of the lowest assessed income in the first class (500–600 marks) and gradually increasing until when the income is 30,000 marks the total assessed income is also the total taxable income. The rate, as fixed every year by law, is then levied on these taxable valuations. This system, it will be recognized, is the same

<sup>1</sup> From M.	900 to	1800	the tax increases	3 marks for every	150				
“	1800	“	4500	“	“	5	“	“	300
“	4500	“	6500	“	“	14	“	“	500
“	6500	“	7500	“	“	16	“	“	500
“	7500	“	9000	“	“	20	“	“	500
“	9000	“	9500	“	“	24	“	“	500
“	9500	“	10500	“	“	24	“	“	1000
“	10500	“	30500	“	“	30	“	“	1000
“	30500	“	32000	“	“	60	“	“	1500
“	32000	“	78000	“	“	80	“	“	2000
“	78000	“	100000	“	“	100	“	“	2000

Above 1,000,000, the tax increases 200 marks for each 5,000.

*Cf. Handwörterbuch der Staatswissenschaften*, iii, 70; and “Das Einkommensteuergesetz vom 24 Juni, 1891, zum praktischen Gebrauch bearbeitet,” von Kolisch, Glogau (1893).

<sup>2</sup>*Cf. in general Handwörterbuch der Staatswissenschaften*, iii (1892), 82–100, where all the latest details are given.

as that formerly practiced in the case of the progressive direct tax in Athens.

In order to bring out clearly the differences in the methods of graduation, the rates for the three important commonwealths which possess a general income tax are appended:

## BADEN.

Income, Marks.	(Steueranschlag) Valuation.	Income, Marks.	(Steueranschlag.) Valuation
500- 600.....	100	3100- 3200.....	1600
600- 700.....	125	and so on.	
700- 800.....	150	9900-10000.....	8400
800- 900.....	175	10000-10500.....	9000
900- 1000.....	200	10500-11000.....	9500
1000- 1100.....	250	11500-12000.....	10000
1100- 1200.....	300	and so on.	
and so on.		29500-30000.....	28500
2000- 2100.....	750	30000-31000.....	30000
2100- 2200.....	825	31000-32000.....	31000
and so on.		and so on.	
3000- 3100.....	1500		

## PRUSSIA.

Income, Marks.	Tax.	Income, Marks.	Tax.
900- 1050.....	6	4200- 4500.....	104
1050- 1200.....	9	4500- 5000.....	118
1200- 1350.....	12	5000- 5500.....	132
1350- 1500.....	16	5500- 6000.....	146
1500- 1650.....	21	6000- 6500.....	160
1650- 1800.....	26	6500- 7000.....	176
1800- 2100.....	31	7000- 7500.....	192
2100- 2400.....	36	7500- 8000.....	212
2400- 2700.....	44	8000- 8500.....	232
2700- 3000.....	52	8500- 9000.....	252
3000- 3300.....	60	9000- 9500.....	276
3300- 3600.....	70	9500-10500.....	300
3600- 3900.....	80	10500-11500.....	330
3900- 4200.....	92	11500-12500.....	360
		and so on.	

Up to 30,500 ..... increase of 30 for every 1000 marks.  
 " 32,000 ..... " " 60 " " 1500  
 " 78,000 ..... " " 80 " " 2000  
 " 100,000 ..... " " 1000 " " 2000

From 100,000-105,000 marks the tax is 4,000 marks.

For every additional 5,000 marks the tax is 200 marks more.

## SAXONY.

Income, Marks.	Tax.	Income, Marks.	Tax.
300- 400.....	0.5	3300- 3800.....	76
400- 500.....	1	3800- 4300.....	94
500- 600.....	2	4300- 4800.....	114
600- 700.....	3	4800- 5400.....	136
700- 800.....	4	5400- 6300.....	162
800- 950.....	6	6300- 7200.....	189
950- 1100.....	8	7200- 8400.....	216
1100- 1250.....	11	8400- 9600.....	252
1250- 1400.....	14	and so on.	
1400- 1600.....	17	12000-14000.....	360
1600- 1900.....	22	and so on.	
1900- 2200.....	30	30000-33000.....	900
2200- 2500.....	38	and so on.	
2500- 2800.....	48	60000-65000.....	1800
2800- 3300.....	59	and so on.	

The principle of graduation has been applied in Germany not only to the commonwealth, but also to the local income taxes. In Prussia, for example, we find such local taxes graduated from less than one per cent to ten or twelve per cent of the income.<sup>1</sup>

In Austria the income tax is partly levied on the progressive principle. The income tax dates from 1849, but has been somewhat amended several times since, especially in 1868. There are several schedules, to each of which a different rate of progression is applicable. The first schedule includes incomes from business already subjected to the business tax; the second schedule comprises other incomes from personal exertions; the third schedule includes incomes from loans, etc. In the first schedule the tax was originally a proportional tax of five per cent,

<sup>1</sup> Cf. the details for each town during the seventies in Neumann, "Die progressive Einkommensteuer im Staats- und Gemeinde-Haushalt," 114-125.



but the successive amendments imposed additional increments on certain classes, while adding smaller increments to other classes. The result is a progressive scale. In the case of certain associations and corporations falling within this schedule the progression is very rapid, ranging from two and a half to almost ten per cent. The law declares that when the income exceeds 300 gulden, the first additional thousand gulden shall be assessed at three-tenths of the amount, the second thousand gulden at five-tenths, and the remainder at its full value.<sup>1</sup> In the second schedule the progressive principle was introduced already in 1849. From 630–1,050 gulden (600–1,000, old standard) the rate was one per cent, then rising one per cent for each 1,050 (old standard, 1,000) gulden until a maximum of ten per cent was reached. Owing to certain additions (*Zuschläge*), which varied from seventy to one hundred per cent in the different classes, the rates are to-day somewhat different, varying from one and seven-tenths per

<sup>1</sup>Thus:

Income, Gulden.	Assessment, Gulden.	Tax Rate, per cent.	Tax, Gulden.	Rate of Income, per cent.
1000.....	300.....	8.5.....	25.5.....	2.55
2000.....	800.....	10 .....	80 .....	4
3000.....	1800.....	10 .....	180 .....	6
4000.....	2800.....	10 .....	280 .....	7
6000.....	4800.....	10 .....	480 .....	8
8000.....	6800.....	10 .....	680 .....	8.5
12000.....	10800.....	10 .....	1080 .....	9
30000.....	28800.....	10 .....	2880 .....	9.6
100000.....	98800.....	10 .....	9880 .....	9.88
1000000.....	998800.....	10 .....	99880 .....	9.988

*Cf.* E. von Fürth, "Die Einkommensteuer in Oesterreich und ihre Reform" (1892), 46.

cent to almost twenty per cent of the income.<sup>1</sup> This seems an extravagantly high rate. Finally, in the third schedule, there is not so much a progression as a differentiation of the tax.

More interesting, because more distinctly due to the growth of democratic impulses, are the progressive income and property taxes in Switzerland.<sup>2</sup>

<sup>1</sup>The exact figures are:

Income, Gulden.	Tax, Gulden.	Rate, per cent.
Under 630.....	0 .....	0
630.....	10.71.....	1.7
1050.....	17.85.....	1.7
1275.....	25.52.....	2
1995.....	49.98.....	2.5
2100.....	63 .....	3
3150.....	126 .....	4
4200.....	210 .....	5
5250.....	315 .....	6
6300.....	441 .....	7
7350.....	588 .....	8
8500.....	756 .....	9
9450.....	945 .....	10
10500.....	1155 .....	11
12600.....	1575 .....	12.5
15750.....	2205 .....	14
18900.....	2835 .....	15
23625.....	3780 .....	16
31500.....	5355 .....	17
47250.....	8505 .....	18
94500.....	17955 .....	19
1050000.....	209055 .....	19.91
10500000.....	2099055 .....	19.991

*Cf.* Fürth, *op. cit.*, 47.

<sup>2</sup>An interesting article by Prof. Gustav Cohn, "Income and Property Taxes in Switzerland," in *Political Science Quarterly*, iv (1889), 37, draws some general conclusions from the experience of Zürich. The article by Mr. R. H. Inglis Palgrave, "Progressive Taxation as levied in Switzerland," *Journal of the Royal Statistical Society*, li (1888), 225, deals especially with the cantons of Basel-stadt, Vaud and Uri. The recent English blue book "Report on the Different Systems of Graduated Taxation in force in Switzer-

Here progressive taxation is of recent date. It is indeed true that after the revolutionary movements of 1830 and 1848, when the Swiss were beginning to recognize the inadequacy of the general property tax and were endeavoring to supplement it with an income tax derived from other sources than property, the income tax was made degressive, generally sharply degressive. So in Zürich in 1832, where on incomes below eight thousand francs the rate descended from two and a half per cent to one-fiftieth of one per cent.<sup>1</sup> So also in St. Gallen in 1832, in Zug in 1848, in Thurgau in 1849 and many others. Some of the official commissions during these years recommended progressive taxes for the higher incomes, as well as the extension of the graduated principle to the property tax. But the public was not yet prepared for this. In fact, in a few cases the degression in the income tax was again abolished, as in Zug in 1851, and in Schaffhausen in 1862. The only exception to the statement that graduation was not applied to property is Basel-stadt, where the income tax of 1840 was extended to the income from property as well, and where the rate varied from one-half of one per cent to three per

land" (1892), deals with five cantons only: Vaud, Zürich, Geneva, Grisons and Uri. For complete and detailed information for the whole of Switzerland students must turn to Georg Schanz, "Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19 Jahrhunderts," five volumes (1890). Vol. i gives a general survey in pages 110-114, and the tables of progression for each canton in pages 367-379, while the details of the development will be found in volumes ii, iii and iv, and the laws themselves in vol. v. In the *Quarterly Journal of Economics*, i, 225, may be found the text of the law of 1886, imposing the progressive property tax in the canton of Vaud.

<sup>1</sup>Schanz, *op. cit.*, ii, 389.

cent for incomes over six thousand francs.<sup>1</sup> The very high progressive property tax in Neuenburg (Neuchâtel) in 1848, where the rate varied from one per cent on 1,000–3,000 francs property to ten per cent on property over 500,000 francs was an extraordinary measure and was not repeated.<sup>2</sup>

The real impetus to progressive taxation was given by the Zürich law of 1870, which applied the progressive scale to property as well as to income. During the seventies Graubünden (Grisons), Glarus, Zug and Schaffhausen adopted the plan; during the eighties Aargau, Uri, Vaud, Baselstadt and others followed. To-day progressive taxation of property or income is found in sixteen of the twenty-five cantons, while the progressive inheritance tax is found in six cantons, progressive taxation of some kind existing in eighteen out of the twenty-five cantons.

The system of progressive taxes on property or income in Switzerland may be classified into three groups:

1. The cantons with a proportional property tax, but a progressive income tax. These are Ticino, St. Gallen, Thurgau and Obwalden. The rate of the property tax is the same, but the rate of the income tax varies from zero (in St. Gallen seven hundred francs income are entirely exempt), by slow graduation to over four per cent. The laws fix not the rate of the tax, but the amount of the tax to be paid for each class of income.<sup>3</sup>

2. The cantons with a progressive property tax. These are Geneva and Glarus. In Geneva the *taxe*

<sup>1</sup>Schanz, *op. cit.*, ii, 35.

<sup>2</sup>*Ibid.*, iv, 50.

<sup>3</sup>*Ibid.*, v, 309, 353, 325.

*mobilière* applies only to personalty. If the property does not exceed 50,000 francs, the first 3,000 francs pay nothing, the remainder pays one per mill; if the property is between 50,000 and 250,000 francs, the first 50,000 francs pay forty-seven francs, and the rest two per mill; if the property exceeds 250,000 francs, the charges are as in the preceding case, except that the surplus over 250,000 francs pays three per mill. In Glarus the general property tax is so arranged that on property less than 25,000 francs, the assessment is only sixty per cent of the true value, while on property above 100,000 francs an addition is made to the rate, ranging from one-tenth of one per cent to two per cent in the case of four million francs property.<sup>1</sup>

3. The cantons with progressive property and income taxes. Most of the cantons with a property tax levy an income tax only on income not derived from property. But Baselstadt and Baselland levy the income tax on incomes from property as well. Baselland, however, excepts interest on monied capital from the income tax.<sup>2</sup> The progressive rates are much more sharply graduated in the income tax than in the property tax. For instance, in Baselstadt the rate of the property tax is one, one and a half and two per cent, according as the property is below 100,000 francs, between 100,000–200,000 or over 200,000 francs. The income tax is one per cent on incomes to 4,000 francs; two per cent on the excess to 8,000 francs; three per cent on the excess to 12,000 francs, and four per cent on the remainder. Concessions are made for unmarried persons, and

<sup>1</sup> Cf. Schanz, iii, 85.

<sup>2</sup> *Ibid.*, i, 55.

parents with small children for incomes from 1,200–2,400 francs. Calculating the property on a four per cent income basis, and reckoning in the additions levied for communal purposes, the rate of the entire property and income tax, when the income is derived from property, varies from less than two per cent up to nine and eight-tenths per cent of the income.<sup>1</sup> In other cantons the rate of progression is smaller.

In so far as the technical methods of carrying out the progressive principle are concerned, the Swiss cantons may be divided into four classes. The first class pursues the old Athenian plan, not changing the rate but assessing to the tax not the whole, but only varying proportions of the true property or income. Thus in Zürich,

In the property tax  $\frac{5}{10}$  of the first 20,000 francs are assessed.

$\frac{6}{10}$	"	next	30,000	"	"
$\frac{7}{10}$	"	"	50,000	"	"
$\frac{8}{10}$	"	"	100,000	"	"
$\frac{9}{10}$	"	"	200,000	"	"
$\frac{10}{10}$	"	remainder	"	"	"

In the income tax  $\frac{2}{10}$  of the first 1,500 francs are assessed.

$\frac{4}{10}$	"	next	1,500	"	"
$\frac{6}{10}$	"	"	3,000	"	"
$\frac{8}{10}$	"	"	4,000	"	"
$\frac{10}{10}$	"	remainder	"	"	"

Every one hundred francs income pays two francs, as often as every one thousand francs property pays one franc.

The second class follows the plan of capitalizing the income at different rates. Thus in Solothurn,<sup>2</sup> where an income tax and a property tax exist, incomes above one thousand francs are considered as equiva-

<sup>1</sup> Cf. table in Bücher, "Basel's Staatseinnahmen," 82, and Schanz, *op. cit.*, i, 379.

<sup>2</sup> Schanz, ii, 457.

lent to property of ten times the amount; but incomes from—

900-1000 francs are deemed to correspond to 8,000 francs property.							
800- 900	"	"	"	"	6,000	"	"
700- 800	"	"	"	"	4,500	"	"
600- 700	"	"	"	"	3,000	"	"
500- 600	"	"	"	"	2,000	"	"
400- 500	"	"	"	"	1,000	"	"
300- 400	"	"	"	"	400	"	"

Incomes below 300 francs are deemed to correspond to property of the same amounts.

In the third and fourth classes, which comprise the large majority of the cantons the laws either prescribe a definite sum or rate to be paid by each class, or change the rate for each class of property or income. Most of the cantons charge a fixed rate upon the entire property or income, according to the class in which it falls. But a few cantons like Basel, Zug, Schaffhausen, Aargau and Vaud divide the entire property or income, so that each successive portion or increment pays the rate assigned to that particular amount of the property or income.<sup>1</sup> In order to ascertain the tax on the entire sum, it thus becomes necessary to make a series of arduous computations and additions. Geneva follows the same plan for its property tax, as does Ticino for its income tax.

A peculiar feature of the Swiss taxes is that the progressive rate is applied separately to the income tax and to the property tax. A taxpayer with 2,500 francs income from property, and 2,500 francs income from labor will be assessed separately for each, and will pay less than if he had 5,000 francs income, either from property alone or from labor alone. Only two cantons have attempted to apply the pro-

<sup>1</sup>Schanz, i, 113.

gressive system to the whole income, irrespective of the source. They accomplish this by adding a certain percentage, not to the taxable property or income, but to the *amount* of the tax, figured on a proportional taxation of property and income. Thus in Aargau, every one who is assessed at from 40–70 francs tax must pay five per cent additional, from 70–100 francs tax ten per cent additional, and so on until those who are assessed at over 500 francs tax must pay thirty-three per cent additional. So in Schaffhausen, those assessed at 25–50 francs tax pay five per cent additional, and so on until those assessed at over 500 francs tax pay fifty per cent additional. This plan possesses at least the advantage of simplicity.

For the sake of completeness the rates of progression in each of the sixteen cantons are herewith appended in the following tables:

## AARGAU.—(ARGOVIE.)

## PROPERTY AND INCOME TAX.

When the normal tax varies from 40– 70 fr. an addit'n is made of 5%

"	"	"	"	70–100	"	"	"	10
"	"	"	"	100–200	"	"	"	15
"	"	"	"	200–300	"	"	"	20
"	"	"	"	300–400	"	"	"	25
"	"	"	"	400–500	"	"	"	30

When the normal tax is over 500 fr. an addition is made of 33½%

## BASELSTADT.—(BALE-VILLE.)

## PROPERTY TAX.

## INCOME TAX.

Property.	Rate.	Income.	Rate.
Up to 100,000 fr.....	1 per cent.	Up to 4,000 fr.....	1 per cent.
100,000–200,000.....	1½ "	On surplus to 8,000...	2 "
Over 200,000.....	2 "	On surplus to 12,000..	3 "
		On excess over 12,000	4 "



## BERN.

## INCOME TAX.

Income.	Capital.	Rate per cent Pensions, etc.	Other Income.
Each 50-100 fr.....	2½	2	1½
“ 150-200.....	5	4	3
“ 250-300.....	7½	6	4½
“ 350-400.....	10	8	6
“ 450-500.....	12½	10	7½
etc., etc.		etc., etc.	

## GENEVA.

## PERSONAL PROPERTY TAX.

Property.	Rate			
Up to 50,000 fr.....	0 on first 3000, $\frac{1}{100}$	of 1 per cent on excess.		
50,000-250,000.....	47 fr. on first 50,000, $\frac{2}{100}$	“ “ “		
Over 250,000.....	47 “ “ 50,000, $\frac{2}{100}$	“ “ on excess.		
	up to 250,000, and $\frac{3}{100}$ “ “ “			

## GLARUS.—(GLARIS.)

## PROPERTY TAX.

Property.	Rate.	Property.	Rate.
Under 25,000	60 per ct. of assessment.	400,001- 500,000 $\frac{7}{100}$	additional.
	60 per ct. of assessment	500,001- 600,000 $\frac{8}{100}$	“
	for first 25,000; full rate for remainder.	600,001- 700,000 $\frac{9}{100}$	“
25,000-100,000		700,001- 800,000 $\frac{10}{100}$	“
		800,001- 900,000 $\frac{11}{100}$	“
		900,001-1,000,000 $\frac{12}{100}$	“
		1,000,001-1,250,000 $\frac{13}{100}$	“
		1,250,001-1,500,000 $\frac{14}{100}$	“
100,001-150,000	$\frac{1}{100}$ additional.	1,500,001-1,750,000 $\frac{15}{100}$	“
150,001-200,000	$\frac{2}{100}$ “	1,750,001-2,000,000 $\frac{16}{100}$	“
200,001-250,000	$\frac{3}{100}$ “	2,000,001-2,500,000 $\frac{17}{100}$	“
250,001-300,000	$\frac{4}{100}$ “	2,500,001-3,000,000 $\frac{18}{100}$	“
300,001-350,000	$\frac{5}{100}$ “	3,000,001-3,500,000 $\frac{19}{100}$	“
350,001-400,000	$\frac{6}{100}$ “	3,500,001-4,000,000 $\frac{20}{100}$	“

## GRAUBÜNDEN—(GRISONS.)

## PROPERTY AND INCOME TAX.

PROPERTY TAX.		Rate.	
Property.			
1- 20,000 fr....	pay.....full.		
20,001- 50,000.....	“ ..... $\frac{1}{10}$	addition for each 1,000 fr.	
50,001- 80,000.....	“ ..... $\frac{2}{10}$	“	“
80,001-110,000.....	“ ..... $\frac{3}{10}$	“	“
110,001-140,000.....	“ ..... $\frac{4}{10}$	“	“
140,001-170,000.....	“ ..... $\frac{5}{10}$	“	“
170,001-200,000.....	“ ..... $\frac{6}{10}$	“	“
200,001-230,000.....	“ ..... $\frac{7}{10}$	“	“
230,001-260,000.....	“ ..... $\frac{8}{10}$	“	“
260,001-290,000.....	“ ..... $\frac{9}{10}$	“	“
290,001-320,000 } and over. }	“ ..... $\frac{10}{10}$	“	“

## INCOME TAX.

Income.	Rate. Per cent.	Income.	Rate. Per cent.
1-800 fr.....	$\frac{1}{4}$	5,000-5,500. fr.....	3
800-1,500.....	$\frac{1}{2}$	5,500-6,000.....	3 $\frac{1}{2}$
1,500-2,000.....	1	6,000-6,500.....	4
2,000-3,000.....	1 $\frac{1}{2}$	6,500-7,000.....	4 $\frac{1}{2}$
3,000-4,000.....	2	7,000-12,000.....	5
4,000-5,000.....	2 $\frac{1}{2}$	Over 12,000.....	5 $\frac{1}{2}$

## OBWALDEN.—(UNTERWALDEN-LE-HAUT.)

## INCOME TAX.

Income.	Tax in fr.	Income.	Tax in fr.
500 fr.....	0.50	800 fr.....	1.20
600 .....	0.70	900 .....	1.50
700 .....	1.	1,000 .....	2.
From 1,000-2,900 fr. $\frac{1}{2}$ of 1 per cent.			
Over 3,000 fr. 1 per cent.			

The above rates are payable for each  $\frac{1}{2}$  of 1 per cent levied as property tax. In the last two classes 400 fr. may be deducted.

## ST. GALLEN.—(ST. GALL.)

## INCOME TAX.

For each 1 per mill of property.

Income.	Tax.	Income.	Tax.
800- 999 francs.....	1 fr.	5,500- 5,999.....	63 fr.
1,000-1,499.....	2	6,000- 6,499.....	76
1,500-1,999.....	4	6,500- 6,999.....	90
2,000-2,499.....	7	7,000- 7,499.....	105
2,500-2,999.....	11	7,500- 7,999.....	121
3,000-3,499.....	16	8,000- 8,499.....	138
3,500-3,999.....	22	8,500- 8,999.....	157
4,000-4,499.....	30	9,000- 9,499.....	177
4,500-4,999.....	40	9,500-10,000.....	200
5,000-5,499.....	51	Over 10,000.....	2½ per ct.

## SCHAFFHAUSEN.—(SCHAFFHOUSE.)

## PROPERTY AND INCOME TAX.

When the tax varies from		Francs.	Per cent.	
		26- 50	an addition is made of 5	
"	"	51- 75	"	10
"	"	76-100	"	15
"	"	101-150	"	20
"	"	151-200	"	25
"	"	201-250	"	30
"	"	251-300	"	35
"	"	301-400	"	40
"	"	401-500	"	45
		Over 500	"	50

## SOLOTHURN.—(SOLEURE.)

## PROPERTY AND INCOME TAX.

(Income multiplied by 10 and added to property.)

Up to 10,000 francs property rate is 1 per mill. For every additional 1,000 over 10,000 fr. the rate is increased by 1 centime per 1,000 francs. Thus:

Property.	Rate.
12,000 fr.....	1.02 per mill.
18,000.....	1.08 "
25,000.....	1.15 "
44,000.....	1.34 "
70,000.....	1.60 "
All over 70,000 fr.....	1.60 "

## THURGAU.—(THURGOVIE.)

## INCOME TAX.

Income.	Tax in fr.	Income.	Tax in fr.
Under 200 fr.....	0.35	1,101-1,400 .....	6
201- 400 .....	0.55	1,401-1,700 .....	10
401- 600 .....	1.	1,701-2,000 .....	16
601- 800 .....	2.	2,001-2,300 .....	23
801-1,100 .....	4.	2,301-2,600 .....	30
Over 2,600 $1\frac{1}{2}$ fr. for every 100 fr.			

## TICINO.—(TESSIN.)

## INCOME TAX.

		For the first.	Francs.	For excess. Per cent.
From	400- 800 fr.....	400.....	1.....	$\frac{1}{4}$
"	801- 1,200.....	800.....	2.....	$\frac{1}{2}$
"	1,201- 2,000.....	1,200.....	4.....	$\frac{3}{4}$
"	2,001- 3,000.....	2,000.....	10.....	1
"	3,001- 5,000.....	3,000.....	20.....	$1\frac{1}{2}$
"	5,001-10,000.....	5,000.....	50.....	2
"	10,001-20,000.....	10,000.....	150.....	3
"	20,001-40,000.....	20,000.....	450.....	4
	Over 40,000.....	40,000.....	1,250.....	5

## URI.

## PROPERTY AND INCOME TAX.

Property.	Tax.	Income.	Tax.
Up to 29,000 ..	$\frac{1}{2}$ fr. per 1000	Up to 1,000 .....	$\frac{1}{4}$ fr. per 1000
30,000- 50,000 ..	.60	1,001-2,000 .....	.35
50,001- 80,000 ..	.70	2,001-3,000 ....	.45
80,001-100,000 ..	.80	3,001-4,000 .....	.60
100,001-150,000 ..	.90	4,001-5,000 .....	.80
150,001-200,000 ..	1.00	5,001-6,000 .....	1.00
200,001-250,000 ..	1.10	6,001-7,000 .....	1.20
250,001-300,000 ..	1.20	7,001-8,000 ....	1.40
300,001-350,000 ..	1.30	8,001-9,000 .....	1.60
350,001-400,000 ..	1.40	9,001-10,000 .....	1.80
Over 400,000 ..	1.50	Over 10,000 .....	2.00

## VAUD.—(WAADT.)

## PROPERTY AND INCOME TAX.

Personal Property.	Rate Per Cent.	Income.	Rate Per Cent.	Real Property.	Rate Per Cent.
1- 25,000 fr.	1	1- 1,250....	1		
25,001- 50,000...	1½	1,251- 2,500....	1½	1- 25,000...	1
50,001-100,000....	2	2,501- 5,000....	2	25,001-100,000...	1½
100,001-200,000....	2½	5,001-10,000....	2½	over 100,000...	2
200,001-400,000....	3	10,001-20,000....	3		
400,001-800,000....	3½	20,001-40,000....	3½		
over 800,000....	4	over 40,000....	4		

## ZUG.

## PROPERTY TAX.

Property from 1,000-100,000 francs pays the simple rate. Above 100,000 francs, the property is put in classes of 100,000 francs each, so arranged that in each class every 1,000 francs pays  $\frac{1}{4}$  franc more than in the preceding class. Thus—

if 100,000	francs..	pay..	1 franc per 1,000 francs.
then 101,000-200,000	“ ..	“ ..	1¼
“ 201,000-300,000	“ ..	“ ..	1½
“ 301,000-400,000	“ ..	“ ..	1¾
“ over 400,000	“ ..	“ ..	2

## INCOME TAX.

If the rate of the property tax is one per mill,

Income.	Tax.
500-1,000 francs.....	pay.....1 franc per 100 francs.
1,000-3,000 “ .....	“ .....
3,000-5,000 “ .....	“ .....
over 5,000 “ .....	“ .....

## ZÜRICH.

## PROPERTY AND INCOME TAX.

## Property.

Of the first 20,000 francs.....	$\frac{5}{10}$	are assessed.
“ next 30,000 “ .....	$\frac{6}{10}$	“
“ “ 50,000 “ .....	$\frac{7}{10}$	“
“ “ 100,000 “ .....	$\frac{8}{10}$	“
“ “ 200,000 “ .....	$\frac{9}{10}$	“

Of the surplus.....the whole is assessed.

## Income.

Of the first 1,500 francs.....	$\frac{2}{10}$	are assessed.
“ next 1,500 “ .....	$\frac{4}{10}$	“
“ “ 3,000 “ .....	$\frac{6}{10}$	“
“ “ 4,000 “ .....	$\frac{8}{10}$	“

Of the surplus.....the whole is assessed.

It is evident from these tables that there is a great diversity in the practical application of the progressive system to property and income taxes in Switzerland. Some cantons apply it to local taxes, others declare that local taxation should be proportional; some have a slight graduation, others a sharp progression; some apply it to one tax only, others to both taxes. In no two cantons are the rates or the classification identical. Some exempt a minimum of subsistence, some pursue the policy of abatements and allowances, some tax all property or income but according to different rates. Some cantons levy a fixed poll tax while others levy a graduated poll tax, the amount of the tax increasing with the progression in the property and income taxes. But whatever the minor differences, the tendency is everywhere toward the spread of the progressive principle and the increase of the scale of progression. The constitutional provision in some of the cantons that the progression should be a "moderate" one, is of very little use in view of the elasticity of the term "moderate." As an actual fact the highest rates do not generally exceed four or five per cent of the income, but in a few cantons like Glarus, Uri, Vaud and Baselstadt the rates are as high as six, seven and even ten per cent. That the number of persons assessed at the higher rates is very small is indeed true; and it may also be confessed that the yield of the progressive taxes is in general very little more than would be the yield of simply proportional taxes. But the opponents of the progressive principle like Leroy-Beaulieu forget that it is the function of progressive taxation not so much to obtain increased revenues as to apportion the burden more equably

among the taxpayers. If the progressive tax is more just than the proportional tax, the fact that it would not yield a penny more revenue would in itself constitute no valid objection.

A more serious practical objection is the tendency to produce evasion, fraud or exodus of capital. But it is questionable whether this objection has not been somewhat exaggerated. The danger is undoubtedly a real one, but there is actually far more evasion, fraud and exodus of capital under the system of the proportional property tax in America than under the system of the progressive property and income tax in Switzerland. Those who will cheat the government or abandon their home because of tax rates are apt to do so at all events, provided the tax is high enough; and it has yet to be proved that a moderate progression will of itself bring about such baneful results. Certainly the experience of Switzerland seems to point in the other direction. Statistics of evasion or exodus of capital are unattainable or worthless; but in all the important cantons which practice progressive taxation there has been a steady increase in the total valuation of property and income.<sup>1</sup>

The very spread of the progressive system in recent years shows at all events that the Swiss cantons have not yet begun to experience any of the injurious consequences which have been predicted for the last twenty years. In those very cantons where the opposition was at first the loudest, the

<sup>1</sup>In Zürich, *e. g.*, the assessed property had increased between 1870-1889 from 627 to 906 million francs, the assessed income from 43 to 88 millions. Schanz, ii, 416. Similar figures might be given for the other cantons which practice the progressive system.

satisfaction is now general. There is no question of abandoning the vantage ground already won. As Switzerland is the most democratic country in Europe, so is it also the most striking example of the progressive system.

Furthermore, in addition to the general property and income taxes almost all the cantons levy inheritance taxes, which are progressive in six cases.<sup>1</sup> In Bern on any excess above 50,000 francs the rate is increased one-half. In Solothurn the normal rate applies to inheritances between 100 and 5,000 francs; below 100 francs only half the rate is applied; from 5,000–20,000 francs the rates are increased by one-fourth for every 5,000 francs. In Thurgau inheritances over 6,350 francs pay one-fourth more; over 12,700 francs one-half more; over 19,000 francs three-fourths more; over 25,000 double rates. In Zürich the rate increases one-tenth for each 10,000 francs until it becomes half as large again as the regular rate. In Uri the rate increases one-tenth for each 10,000 francs up to 200,000 francs, so that the tax on 200,000 francs would be triple the original rate. In Schaffhausen the rates increase one-tenth for inheritances between 2,000–10,000 francs and one-tenth for each additional 10,000 francs up to 90,000 francs. Above that sum inheritances pay double rates.

Switzerland and Germany are the chief examples of progressive taxation in Europe. But many other cases are to be found. Thus in Belgium and Holland, many of the local income taxes are assessed on

<sup>1</sup>*Cf.* the details in Schanz, *op. cit.*, i, 158. See also West, "The Inheritance Tax" (*Columbia College Studies in History, Economics and Public Law*, vol. iv, no. 2, 1893), 21–27.



the graduated principle. For instance, in Amsterdam the incomes are divided into five classes; in the first two classes the incomes are taxed on one-quarter of the assessed valuation; in the next two classes on one-half, and in the next class on three-quarters of the assessed valuation. Moreover, in considering the assessed valuation the minimum of each class is taken as the basis.<sup>1</sup> It is the Athenian and the Zürich plan with a slight alteration. In the town of Terneuzen, on the other hand, where the number of classes is much larger, the rate itself varies,—the first class, from 300–399 florins, paying one-half of one per cent tax; the second class, from 400–549 florins, five-eighths of one per cent, and thus gradually increasing until the nineteenth class, with incomes of 7,000 florins and over, pays four per cent.<sup>2</sup>

In the recent property tax which was imposed by the law of 1892 as a general state tax for the whole of Holland, a slightly progressive scale has been introduced. Property below 13,000 guilders in value is exempt. If it exceeds that amount the tax is  $1\frac{1}{4}$  guilders for each 1,000 guilders over 10,000 guilders. But if the property amounts to more than 200,000 guilders, the tax is two guilders for every 1,000 guilders of the surplus. If we calculate the income as four per cent of the property, the percentage of income due as a tax would vary from 1.04 to 5 per cent.<sup>3</sup>

In Denmark and Sweden the graduated principle has also been accepted to a certain extent. In

<sup>1</sup>Denis, "L'Impôt sur le Revenu, Rapports et Documents présentés au . . . conseil communal de Bruxelles" (1881), 45.

<sup>2</sup>*Ibid.*, 85.

<sup>3</sup>*Cf.* the article of Greven in the *Economic Journal*, iii, 537.

Copenhagen, for example, in the local income tax the Athenian plan is followed. Incomes below 800 kroner (\$215) are exempt, incomes from 800 to 2,400 kroner are assessed at only a portion of their actual amount, while the liability to full taxation occurs only when the income amounts to 2,400 kroner.<sup>1</sup>

In England, outside of the degression in the income tax, graduation is found only in the death duties. The probate duty varies from one and a half per cent to more than three per cent, while the estate duty imposes an additional tax of one per cent on successions over £10,000, thus increasing the progressive nature of the charge.<sup>2</sup>

In France, on the other hand, the chief instance of progressive taxation is found in the rental or occupancy tax paid by the tenant. It is a curious provision of the French system of local taxation that the *taxe personnelle et mobilière* may be assumed in a lump sum by the cities, and that the amount may be defrayed in part out of the proceeds of the *octroi* or local customs duties. The remainder is raised by a tax on rentals, which is made progressive, partly for the reason already mentioned that the greater the income the smaller relatively the amount spent for house rent,<sup>3</sup> partly in order to compensate

<sup>1</sup> Incomes of 800 kr. are rated at .....	200 kr.
“ 1000 “ “ “ .....	400 “
“ 1200 “ “ “ .....	600 “
“ 1400 “ “ “ .....	900 “
“ 1600 “ “ “ .....	1200 “
“ 1800 “ “ “ .....	1500 “
“ 2000 “ “ “ .....	1800 “
“ 2200 “ “ “ .....	2100 “

See “Consular Reports on Taxation,” nos. 99 and 100 (1888), 326.

<sup>2</sup>*Of.* for details West, “The Inheritance Tax,” 38-40.

<sup>3</sup>See above p. 28.

the lower classes for the burdens of the *octroi*, which they are deemed to bear in great part. Several of the French towns have adopted this plan. The houses are arranged in classes according to the rental value. Below a certain figure they are entirely exempt. In the other classes the rate is graduated up to a definite maximum. In Paris the progression ends very soon. Houses with rentals below 500 francs are entirely exempt (with some minor exceptions). In the other classes the rate is fixed differently every year according to the needs of the city treasury. In 1890, houses with rentals up to 599 francs paid  $6\frac{1}{2}$  per cent, to 699 francs  $7\frac{1}{2}$  per cent, to 799 francs  $8\frac{1}{2}$  per cent, to 899 francs  $9\frac{1}{2}$  per cent, to 999 francs  $10\frac{1}{2}$  per cent, and above 1,000 francs 11.74 per cent.<sup>1</sup> In 1888 a bill was introduced by the government generalizing this tax and greatly extending the progression as well as the classification. But it was abandoned. The French system of progressive rental taxes is found in several other continental countries, especially in the field of local revenue.

Recent years have seen a great development of the principle of progression in Australasia. It has there been applied principally to the inheritance taxes. We find a graduated inheritance tax in Victoria as early as 1870, but in most of the other colonies the progressive principle has been introduced only during

<sup>1</sup> Cf. "Dictionnaire des Finances," by Léon Say, ii, 854, *sub verbo Personnelle-mobilière*. The figures and statements contained in Wagner, "Finanzwissenschaft," iii, 461 which are copied in the article by Heckel in the *Handwörterbuch der Staatswissenschaften*, iv (1892), 1182, are incorrect. They are all based on antiquated material. Formerly many towns pursued this practice. Now only Paris and Versailles remain.

the last decade. At present the Victoria tax divides inheritances into thirty-seven classes with £100,000 as a maximum, and with rates from one to ten per cent. In New South Wales there are five classes with £50,000 as a maximum and with rates from one to five per cent; in New Zealand five classes and in Queensland six classes with £20,000 as a maximum and with rates from one to ten per cent. In several instances strangers in the blood are taxed more severely. In Queensland, *e. g.*, in the case of strangers the graduation extends to twenty per cent of the inheritance.<sup>1</sup>

Australasia is not only remarkable for possessing the highest graduated inheritance taxes in the world, but it also has the distinction of containing the only Anglo-Saxon state which has applied the progressive principle to the property tax. The democratic jealousy of large estates, and the endeavor to reach the land-owner are seen in the high Victorian land tax on all estates worth more than £2,500.<sup>2</sup> The most careful observer of contemporary Australian policy, Sir Charles Dilke, tells us that the graduated succession duties in Victoria are likely before long to develop into a graduated property tax.<sup>3</sup> In New South Wales the drift is almost equally strong, and a graduated income tax bill was passed in 1892 by the assembly, although the measure was rejected by the legislative council;<sup>4</sup>

<sup>1</sup>*Cf.* for details, West, "The Inheritance Tax," 41-51.

<sup>2</sup>For statistics of the land tax in Victoria, as compared with other Australasian colonies, see H. H. Hayter, "Victorian Year-book" (1892), i, 253 *et seq.*

<sup>3</sup>Dilke, "Problems of Greater Britain," i, 229.

<sup>4</sup>*Ibid.*, i, 305; *cf.* Coghlan, "The Wealth and Progress of New South Wales" (1893), part xx, p. 608.

while within the last two or three years the prediction has actually been verified in the case of New Zealand.

By the New Zealand "land and income assessment act" of September 8, 1891, land is divided into fourteen classes. Up to £5,000 value the ordinary penny rate in the pound is levied; for each successive class an additional one-eighth of a penny is imposed, until when the property exceeds £210,000 in value it pays two and three-quarters pence in the pound.<sup>1</sup> In the case of absentees (those absent from or resident out of the colony for three years or over) the scale of taxation is increased twenty per cent in each case. A distinction is drawn between the land proper and improvements. In the case of the ordinary penny rate, improvements up to £3,000 are exempt, and the amount of any outstanding mortgage is deducted, the mortgage being assessed to the mortgagee. When the value of the land, less such improvements and mortgages, does not exceed £1,500, an exemption of £500 is allowed, after which the amount of the exemption diminishes one pound for every two pounds increase in the assessed value of the land, so as to leave no exemption when the value exceeds £2,500. An important feature of the

<sup>1</sup>The rates additional to the normal penny rate are as follows :

Property.	Addition.	Property.	Addition.
£ 5,000-10,000.....	$\frac{1}{8}$ d.	90,000-110,000.....	1 d.
10,000-20,000.....	$\frac{2}{8}$	110,000-130,000.....	$1\frac{1}{8}$
20,000-30,000.....	$\frac{3}{8}$	130,000-150,000.....	$1\frac{2}{8}$
30,000-40,000.....	$\frac{4}{8}$	150,000-170,000.....	$1\frac{3}{8}$
40,000-50,000.....	$\frac{5}{8}$	170,000-190,000.....	$1\frac{4}{8}$
50,000-70,000.....	$\frac{6}{8}$	190,000-210,000.....	$1\frac{5}{8}$
70,000-90,000.....	$\frac{7}{8}$	210,000 and over....	$1\frac{7}{8}$

For further details and the purposes of the measure, see the article on "Direct Taxation in New Zealand," by Sir Robert Stout, in the *Sydney Quarterly*, March, 1892.

law is that the graduated system applies only to the unimproved value of the land. As to improvements, the tax is proportional. It is further to be noted that while in the case of the penny rate a deduction is made for mortgages on the land, no such deduction is made in the case of land upon which a "graduated" tax is payable, in as far as such graduated tax is concerned. Mortgagees, moreover, are never liable to the graduated tax. This Australasian tax is a most interesting experiment, and its history will be followed with close attention.

Finally, in the United States the chief instance of progression, apart from the graduated direct tax at the end of the last century, is the income tax during the Civil war.<sup>1</sup> The original act of 1861 provided for a proportional tax on the excess over \$800. But this law, for several reasons not necessary to explain here, was never put in force. The first law actually executed, that of July 1, 1862, provided for a general tax on so much of all incomes as exceeded \$600. From \$600 to \$10,000 the rate was three per cent; above that five per cent.<sup>2</sup> The minor variations for different sources of income do not interest us in this place. The commissioner of internal revenue, in his first report, advocated a further graduation of the tax, making the full rate begin only with incomes of \$20,000. He proposed a four per cent tax for incomes from \$5,000–10,000, a five per cent tax from \$10,000–20,000, and a five and a half or six per cent tax above \$20,000.<sup>3</sup> The plan,

<sup>1</sup>It is to be regretted that the account of the income tax, in Lalor's "Cyclopædia of Political Science," ii, 480, should be absolutely inaccurate in many of the most important statements.

<sup>2</sup>Act of July 1, 1862, §§ 89–93.

<sup>3</sup>Report of the Commissioner of Internal Revenue for the Year ending June 30, 1863, 11.

although not the exact figures, was adopted in the new law of 1864. Incomes were now divided into three classes. On incomes below \$5,000 the rate was five per cent. on the excess above \$600; incomes from \$5,000–10,000 paid seven and a half per cent; incomes above \$10,000 paid ten per cent.<sup>1</sup> The special additional income tax of 1864 was, however, proportional, not progressive.<sup>2</sup>

Secretary Fessenden, in his report for 1864, defended the progressive income tax in the following words: "The adoption of a scale augmenting the rate of taxation upon incomes as they rise in amount, although unequal in one sense, cannot be considered oppressive or unjust, inasmuch as the ability to pay increases in much more than arithmetical proportion as the amount of income exceeds the limit of reasonable necessity."<sup>3</sup> Congress was evidently of his opinion, for it continued the principle, although in 1865 one of the classes was omitted. By this law all incomes below \$5,000 paid five per cent on the excess over \$600; while all incomes over \$5,000 now paid ten per cent.<sup>4</sup> After the Civil war was over, and the need of large revenues diminished, the rate of the tax was reduced and made uniform,<sup>5</sup> and the limit of exemption was gradually increased until the tax itself came to an end in 1872. The interesting history of the tax as well as a comparison with other taxes and a criticism of the results must be reserved

<sup>1</sup>Act of June 30, 1864, §§ 116–123.

<sup>2</sup>Joint Resolution No. 77, July 4, 1864.

<sup>3</sup>Report of the Secretary of the Treasury, 1864, 15.

<sup>4</sup>Law of March 3, 1865, Thirty-eighth Congress, Second Session, chap. 78.

<sup>5</sup>Law of March 2, 1867, Thirty-ninth Congress, Second Session, chap. 169.

for another place, as the mere fact of graduation was, in itself, not of great importance as compared with some of the other features of the tax.

The principle of progression was also applied to the income taxes of the Confederacy during the Civil war. By the law of April 24th, 1863, all salaries, except those of naval and military officers, were taxed one per cent if not exceeding \$1,500, but two per cent on any excess.<sup>1</sup> All other incomes, from property, labor, etc., were taxed according to a much more severe scale. Incomes below \$500 were exempt; from \$500 to \$1,500 the rate was five per cent; on all incomes over \$1,500 and less than \$3,000, five per cent was levied on the first \$1,500 and ten per cent on the remainder; incomes between \$3,000 and \$5,000 paid ten per cent; incomes between \$5,000 and \$10,000 paid twelve and a half per cent; incomes of \$10,000 and over paid fifteen per cent.<sup>2</sup> Special provision was made for joint stock companies and corporations. A general tax of ten per cent was levied on their profits. But when they made a profit of between ten and twenty per cent on their capital stock paid in, they were taxed twelve and a half per cent on the profits; in case the profits exceeded twenty per cent the tax was as high as sixteen and two-thirds per cent. The amendatory act of February 17, 1864, exempted salaries of \$1,000, but made no changes in the rates.

Graduated taxes have not been confined to the national government. In Virginia the income tax has existed since 1843. It was at first a tax on salaries

<sup>1</sup>Acts of the First Congress of the Confederate States, Statute iii, chap. 38, sec. 7. Mathews, "The Statutes at Large of the Confederate States of America," 120.

<sup>2</sup>*Ibid.*, sec. 8, vi.



and professional income, and a partial tax on funded incomes. It afterwards became a more general income tax. In 1853 the tax was made degressive. Incomes from \$200 to \$250 were taxed one-fourth of one per cent; from \$250–500 one-half of one per cent; from \$500 to \$1,000 three-fourths of one per cent; over \$1,000 the rate was one per cent.<sup>1</sup> In 1856 the rates were doubled. But in 1863, when the tax became a general income tax, the graduated scale was dropped. And in 1866, although the principle of differentiation was adopted, the progressive rate was not.

We still have an instance of graduated income taxes in the United States. In North Carolina the income tax dates from 1849. It was at first a tax on commercial and precarious incomes, but was gradually changed until it became a tax on incomes from property not already taxed. Although the limit of exemptions was changed at various times, the principle of graduation was not introduced until 1893, when both differentiation and degression were adopted. At present the rate is five per cent on all profits and incomes derived from property not taxed; incomes from salaries and fees pay one-half of one per cent on the excess over \$1,000; all other incomes pay the following rates:<sup>2</sup>

Excess over \$1,000 to \$5,000,— $\frac{1}{5}$	of 1 per cent.
“ 5,000 to 10,000,— $\frac{1}{4}$	“ “
“ 10,000 to 20,000,— $\frac{1}{3}$	“ “
“ 20,000,	1 “

The arrangement, it will be remembered, is the same as in some of the Swiss cantons, like Basel and Schaffhausen.

<sup>1</sup>Law of April 7, 1853, Va. Acts 1852–53, chap. 8.

<sup>2</sup>North Carolina Revenue Act, 1893, schedule A, sec. 5.

Outside of this one case of a graduated income tax, the only examples of progressive taxation in the American commonwealths at present are found in connection with the corporation taxes. In most of the southern commonwealths the license taxes are arranged by classes, each class of receipts or sales, etc., paying a fixed sum different from the preceding class. But this is not graduated taxation, as the term is usually understood, and as it is used in this monograph. On the other hand, some of the taxes on transportation companies can lay claim to this designation. For instance, in Maine the "excise tax" on railroads varies from one-fourth of one per cent to three and a quarter per cent of the earnings, the lowest rate being applied when the earnings are \$1,500 per mile and under, and the rate increasing one-fourth of one per cent for every \$750 earnings per mile.<sup>1</sup> In Wisconsin the so-called "license fees" on railroads are five dollars per mile on earnings under \$1,500 per mile; the same plus two per cent on the excess over \$1,500, when earnings vary from \$1,500 to \$3,000; and four per cent when earnings exceed \$3,000 per mile.<sup>2</sup> So also in Michigan the "specific tax" on railroads ranges from two to two and a half, three, three and a half, and four per cent according as the earnings are less than \$2,000 a mile, \$2,000-4,000, \$4,000-6,000, \$6,000-8,000, or over \$8,000 a mile.<sup>3</sup> In Vermont, until very recently, the rate of tax on railroad companies was two per cent for the first \$2,000 earnings per mile, three per cent for the first

<sup>1</sup>Maine, "Revised Statutes," title 1, sec. 42, as amended by Acts of 1893, chap. 166.

<sup>2</sup>Wisconsin, "Annotated Statutes," § 1213.

<sup>3</sup>Michigan, Laws of 1893, no. 129.

additional \$1,000; four per cent for the next additional \$1,000; five per cent for everything over \$4,000 earnings per mile.<sup>1</sup>

The last few years have seen a decided impetus to the movement in favor of a graduated scale in the inheritance taxes. During the session 1892-3 bills to introduce progressive inheritance taxes were introduced in Nebraska, New York and Pennsylvania, and in the latter state the bill even passed the lower house. The scheme is now being actively discussed in other commonwealths. It is safe to predict an adoption of the graduated principle in the near future.

In Canada the progressive scale was actually introduced in two provinces in 1892. In Ontario the rates for certain direct relations are two and one-half per cent, when the estate is between \$100,000 and \$200,000, and five per cent when it exceeds \$200,000. In Nova Scotia the two and one-half per cent rate applies only to an excess above \$25,000, and the five per cent rate to any excess above \$100,000. For other relatives and strangers the tax in both provinces is proportional, or rather it is graduated according to relationship, not according to the amount of the estate, being five per cent for certain relatives and ten per cent for distant relatives and strangers.<sup>2</sup>

From the above review it is evident, therefore, that the tendency toward progressive taxation is almost everywhere on the increase. Whether we deplore it or not, democracy is asserting itself more

<sup>1</sup>See my article on "The Taxation of Corporations," in *Political Science Quarterly*, v, 291. The tax was made proportional in 1890. Laws of 1890, chap. 3, p. 5.

<sup>2</sup>*Cf.* West, "The Inheritance Tax," 52-56.

vigorously, and it is precisely in the most democratic countries like Australia and Switzerland that the movement in favor of progressive taxation is the strongest. The results thus far, as we have seen, have not been of a character to justify the fears of the alarmists. In Switzerland the national prosperity is on the increase, capital is growing and the principle of graduated taxation is no longer deemed debatable. Its application has given general satisfaction. In Australia, Sir Charles Dilke tells us,<sup>1</sup> the institution of private property has not been weakened, nor has capital been driven away. The people are satisfied with the progressive principle and are extending its operation year by year. In Germany and Austria progression, as a principle, is no longer seriously combated. And even in England a graduated income tax has become one of the planks of the radical platform. As the Hon. James Bryce writes in a recent letter: "Progressive inheritance and income taxes are likely to figure largely in time to come in European politics." And the same statement may be hazarded of American politics as well. The facts, therefore, seem to be in the direction of progressive taxation. Let us endeavor to ascertain what the verdict of theory is.

<sup>1</sup>"Problems of Greater Britain," part vi, chap. 1.

## II.

# THE THEORY OF PROGRESSIVE TAXATION.

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## CHAPTER I.

### THE SOCIALISTIC AND COMPENSATORY THEORIES.

There is scarcely any topic of economic inquiry which has aroused the interest of scientists and would-be reformers more than the theory of progressive taxation. Yet, with but few exceptions, almost every writer has simply advanced his own views on this topic, without reference to the work of his predecessors or an adequate discussion of the arguments of his opponents. It will be my purpose in what follows to collect every valuable argument that may have been advanced on any side of the controversy in order that we may attain a firm basis for our own conclusions. In order to avoid undue digressions, the detailed history of each important theory is relegated to the historical appendices.

The arguments that have been advanced in favor of progressive taxation may be grouped in three classes which must be carefully distinguished. These I shall call respectively the socialistic, the compensatory and the economic theories.

The foremost scientific advocate of the socialistic theory of progression is the German economist, Adolf Wagner. Wagner distinguishes between the

purely fiscal period in the history of public finance, and the socio-political period. The essence of the first period consists in the simple endeavor on the part of the government to raise a revenue adequate to its needs. The essence of the second period consists in the predominance of social reasons over purely fiscal reasons. The state is no longer satisfied merely with raising an adequate revenue, but now considers it a duty to interfere with the rights of private property in order to bring about a more equitable distribution of wealth. The fiscal policy looks merely to the needs of the administration; the socio-political policy looks at the relations of social classes to each other, and the best methods of satisfactorily adjusting these relations. The fiscal policy necessarily results in proportional taxation; the socio-political policy results in progressive taxation. The ethical demands of modern civilization are everywhere preparing the way for a transition from the old fiscal period to the incipient socio-political period. It is these ethical or social reasons alone which can logically serve as a basis for progressive taxation.

This distinction of Wagner is, however, entirely baseless. It is not true historically that the tax policy of various nations has been adjusted solely with reference to purely fiscal reasons. All governments have allowed social considerations in the wider sense to influence their revenue policy. The whole system of protective duties has been framed not merely with reference to revenue considerations, but in order to produce results which should directly affect social and national prosperity. Taxes on luxuries have often been mere sumptuary laws de-

signed as much to check consumption as to yield revenue. Excise taxes have frequently been levied from a wide social, as well as from a narrow fiscal, standpoint. From the very beginning of all tax systems these social reasons have often been present. The attempt to sharply distinguish such periods historically is, therefore, unsuccessful.

But, on the other hand, it is not allowable to confound this undoubtedly social element in all fiscal policy with what Wagner calls the socio-political, or what may be called more correctly the socialistic, element. From the principle that the state may modify its strict fiscal policy by considerations of general national utility to the principle that it is the duty of the state to redress all inequalities of fortune among its private citizens is a long and dangerous step. It would land us not only in socialism, but practically in communism. If this were one of the acknowledged functions of government, it would be useless to construct any science of finance. There would be only one simple principle: confiscate the property of the rich and give it to the poor.

The difference between the social element and Wagner's socio-political idea is the difference between social reform and socialism. We may indeed deprecate the existing conditions which affect the distribution of wealth. But where so much is spoken of just and unjust arrangements, it is necessary to come to an understanding exactly what justice means. Justice, in so far as the action of the state is concerned, consists in holding the balance equal; in giving none an undue advantage; in affording each individual equal rights before the law and equal opportunities to develop his own talents and re-

sources. Justice indeed demands that the state should do nothing consciously and purposely to increase inequality of wealth; but it cannot demand that the state should do away with inequality of wealth. Justice in the sense of equality may demand great changes in the existing forms of taxation; but that is a question by itself. It involves the problem of the equal treatment of all, as over against historic inequality and its survivals in the tax systems of the world to-day. In that sense indeed there is room and need for social reform; but it is a reform which consists in checking the continuance of old unequal laws, not in fostering the growth of new unequal laws. Legal justice means legal equality; but a legal equality which would attempt to force an equality of fortune in the face of inevitable inequalities of native ability would be a travesty of justice.

We may indeed grant the crying need for social reform. But in so far as the government is concerned the possibility of social reform lies rather in the general attitude of the legislator in social and industrial matters. And even in so far as finance is concerned, the chief social reforms are in the domain of outlay and expenditure rather than in that of revenue. The desirable social reforms consist in extending the benefits of governmental activity to the poor and needy, and in enabling even the lowest classes to participate, as far as possible, in the advantages of progressive civilization. Even here it is a question how far it is desirable to go; and the answer depends not alone on fiscal reasons, but also on wider considerations of general governmental policy. But at all events the so-called socio-political



theory is untenable in so far as it implies a conscious effort on the part of the state to levy higher taxes on the rich in order to reduce them to the level of the poor.

This theory, moreover, is not new with Wagner. As far back as the fifteenth century when the whole Florentine republic was convulsed with the conflict as to the progressive tax—*la decima scalata*<sup>1</sup>—the distinguished historian and publicist, Guicciardini, wrote two remarkable treatises in which he discussed the arguments for and against progression. In the first essay he really foreshadows many of the most important of the recent theories on the subject, including what have been termed the economic theories ; but he nevertheless lays the chief stress on the argument that progressive taxation will lessen the disparity of fortunes and prevent the excessive accumulation of wealth. Progressive taxation, in short, must be defended on general considerations of social policy. Guicciardini himself, it is true, sides with the opponents of progression, whose arguments he develops in the second essay ; but his first essay remains of great importance to-day yet as reflecting the arguments of the earliest literary advocates of the principle of progression. It is remarkable that it should have received so little attention outside of Italy.<sup>2</sup>

<sup>1</sup>See above p. 23.

<sup>2</sup>The two essays were first published separately under the title, "La decima scalata in Firenze," 1849, but were afterwards included in Guicciardini's "Opere Inedite," vol. x. The first one to call attention to these arguments was Canestrini, "La Scienza e l'Arte di Stato desunta dagli Atti ufficiali della Repubblica Fiorentina. Parte I. L'Imposta sulla Ricchezza mobile e immobile" (1862), 219 *et seq.* Ricca-Salerno, "Storia delle Dottrine Finanziarie in Italia" (1881), 36 *et seq.*, also refers to them.

Later on, not to speak of the mediaeval socialists, we find the same theory in Rousseau. It was Rousseau's ideal to reduce all to an equality, but his equality was that of the natural man, the savage. It was for this reason that he advocated progressive taxation.<sup>1</sup> So also Baboeuf, during the French Revolution, looked upon progressive taxation as a useful engine to do away with private property.<sup>2</sup> And when we come to the economists we find the principle already expressed in the third quarter of the eighteenth century by von der Lith.<sup>3</sup> Since then it has been occasionally urged, most recently by the German economist, von Scheel.<sup>4</sup>

If, therefore, the socio-political argument were the only ground for progressive taxation, it is plain that it could not be upheld at all. The socialistic argument, which undoubtedly lies at the basis of many of the demands for progressive taxation, must be unconditionally rejected by all those who are not prepared to enroll themselves logically among the socialists. But, unfortunately, most of the middle classes, as well as many professed economists, have confounded the economic theory of progressive

<sup>1</sup>Jean Jacques Rousseau, "Discours sur l'Economie Politique," vol. i, 252, of the Geneva edition.

<sup>2</sup>*Cf.* Advielle, "Histoire de Gracchus Baboeuf et du Babouvisme" (1884), i, chap. viii.

<sup>3</sup>"Ein weiser Regent wird mithin die Steuern dazu anwenden, um die gemeldete Ungleichheit des Vermögens seiner Unterthanen zu vermindern. Wenigstens wird er dieselbe nicht durch die ungleichen Anlagen vermehren." Von der Lith, "Neue Abhandlung von den Steuern" (1766), sec. 36.

<sup>4</sup>v. Scheel, "Die progressive Besteuerung." In *Tübinger Zeitschrift für die gesamte Staatswissenschaft*, vol. 31 (1875), 273. He bases his demand on what he calls the socio-political reasons, thus using the same term which Wagner later adopted.

taxation with the socialistic theory, and have assumed that progressive taxation necessarily implies socialism and confiscation.<sup>1</sup>

This is, perhaps, the reason of the fierce denunciation with which the project of progressive taxation has often been met. Thus, at the time of the discussion of the first income tax in the English Parliament, in 1799, Lord Auckland said that graduated taxation was outright revolutionary.<sup>2</sup> So the German statesman, Gentz, said that progressive taxation was not much better than common thievery.<sup>3</sup> And when Turgot, the celebrated French statesman, was presented with a project of progressive taxation, he wrote on the margin, "We must execute the author, not the project."<sup>4</sup>

But it is absolutely erroneous to assume that progressive taxation necessarily implies socialism and confiscation. It is perfectly possible to repudiate absolutely the socialistic theory of taxation and yet at the same time to advocate progressive taxation on purely economic grounds. One may be an arch individualist and nevertheless believe in progressive taxation. We shall see this when we take up the

<sup>1</sup>This is true of a whole host of writers in every language. The ablest American exponent of this view is Mr. David A. Wells. Cf. his "The Communism of a Discriminating Income Tax," *North American Review*, March, 1880.

<sup>2</sup>Progressive taxation "would be contrary to all the safety and rights of property"; it would "be worthy only of the French Council of Five Hundred"; and it "would amount to neither more nor less than the introduction of a plan for equalizing fortunes," etc. "The Substance of a Speech made by Lord Auckland in the House of Peers upon the Bill for granting certain Duties upon Income" (1799), 25.

<sup>3</sup>Gentz, in *Historische Journal* (1799), 3. Quoted in Murhard, "Theorie und Politik der Besteuerung" (1834), 544.

<sup>4</sup>"Il faut exécuter l'auteur, et non le projet."

arguments of the individualistic school of progressive taxation.

Before considering these theories it may be well to notice briefly the views of those who occupy a middle ground and who uphold progressive taxation for reasons unconnected directly with either the socialistic or the so-called economic arguments. We come thus to what may be termed the compensatory theories of progressive taxation. President Walker, *e. g.*, bases his defence of progressive taxation on two considerations: First, "the undoubted fact that differences of property and income are due, in no small degree, to the failure of the state in its duty of protecting men against violence and fraud," and secondly, "that differences in wealth are, in a measure, due to the acts of the state itself having a political purpose, as treaties of commerce, tariffs, currency legislation, embargoes, non-intercourse acts, wars, etc." He argues that where differences of wealth may fairly be presumed to be in a measure due to the state's own acts of omission or commission, allowance should be made therefor in the tax system.<sup>1</sup> And he concludes that "were the highest human wisdom, with perfect disinterestedness, to frame a scheme of contribution, I must believe that the progressive principle would in some degree be admitted."

This defence of progressive taxation is in many respects interesting, although it is really not new with President Walker. Progressive taxation was first advocated at length on this ground in the

<sup>1</sup>Walker, "Political Economy," 1st ed. (1883), 479-480. In the 3rd edition (1888) these passages are omitted although the general conclusion is still retained.

remarkable work of a woman, Mlle. Royer, which was crowned by the Council of State of Vaud in Switzerland at the time of the great international convention on taxation in Lausanne in 1860.<sup>1</sup> Miss Royer takes the ground that it is the duty of the state to compensate individuals for the "accumulated results of legal iniquities," and that this means progressive taxation.<sup>2</sup> The same idea, in fact, is already found in the French writer Villiaumé, who upholds progressive taxation on the ground that "taxation ought to counterbalance the inequalities consecrated by custom and by law."<sup>3</sup> Another earnest advocate of the compensatory theory is the noted economist Courcelle-Seneuil. Progressive taxation, says he, is in itself neither good nor bad. Up to a certain point it is highly desirable. Beyond that it becomes pernicious. That is to say, the possession of wealth already gives the rich many advantages over the

<sup>1</sup>Five monographs out of forty-five received prizes,—those of Proudhon, Lassaut (a Parisian lawyer), Mlle. Royer, Professor Walras and M. Romiol. Proudhon, Walras and Mlle. Royer published their works, each of which will be noticed in the course of this discussion.

<sup>2</sup>The characteristic passages are as follows: "L'idéal de la justice distributive consiste à réparer les inégalités et les torts de la nature. Au contraire, dans le passé, la légalité si souvent contraire à la justice a toujours aggravé ces inégalités et ces torts. Il faut maintenant compenser avec lenteur et prudence ce que cette action de la loi a eu de funeste dans le passé." And again: "Dans le cas particulier où le présent doit réparer un héritage d'iniquité léguée par le passé, la proportion peut être plus ou moins progressive, suivant qu'on veut compenser plus ou moins rapidement, l'écart produit dans les conditions sociales par le fait de ces iniquités légales accumulées." Clémence Auguste Royer, "Théorie de l'Impôt ou la Dîme Sociale" (1862), i, 64. Cf. chap. iv, p. 47.

<sup>3</sup>"L'impôt doit contrebalancer les inégalités consacrées par les mœurs ou les lois." Villiaumé, "Nouveau Traité d'Economie Politique" (1857), 137. See also 2nd edition (1866), 238 and 244.

poor, and the legal conditions of society naturally favor the rich. A progressive tax which would simply attenuate and diminish these advantages of the rich would be useful and just. But to go beyond this limit and to weaken the desire to acquire wealth would be an irreparable misfortune.<sup>1</sup> It is true that Courcelle-Seneuil's ideal is a tax on consumption, not on income,—but the fact remains that he favors the progressive scale for the reason noted.

The compensatory theory of progressive taxation is, however, not convincing. Its defect consists in the point to which President Walker himself alludes. It is utterly useless as a standard. It is absolutely impossible to lay down any general principles by which this influence of the state in creating inequalities of fortune may be measured. If progression is regarded as an inequality, then it is impossible to correct one inequality by another inequality unless it could be shown that the second inequality would in every respect fit into and counterbalance the first inequality. The test is impracticable. And if this were the sole defence of progressive taxation, it might be as well to abandon the contention at once. What I have termed the economic arguments have,

<sup>1</sup>“ Si la progression de l'impôt était telle qu'elle pût éteindre ou diminuer sensiblement le désir de s'enrichir, elle porterait un coup funeste et peut-être irréparable à la production. Mais si la progression était médiocre, elle compenserait à peine les avantages nombreux que l'appropriation par l'échange assure aux citoyens riches, et ne découragerait personne; elle ne rétablirait pas même l'égalité des conditions dans le concours ouvert entre les riches et les pauvres. . . Le but de l'impôt progressif ne doit pas être de détruire, mais seulement de diminuer les avantages que procure naturellement aux riches sur les pauvres la possession d'une grande fortune.” Courcelle-Seneuil, “*Traité théorique et pratique d'Economie Politique*,” 2nd ed. (1867), ii, 206.

however, not been alluded to by President Walker, although they are of far more importance.

Of a similar character, although of somewhat greater force, is the argument which upholds progression of some one particular tax on the ground of its acting as a counterpoise to the influence of other taxes. When indirect taxes exist they often, it is said, act regressively and hit the poor harder than the rich. The direct tax with its progressive scale is to act as an engine of reparation. In order to attain equal treatment the regressive indirect taxes must be counterbalanced by the progressive direct tax. Proportionality of taxation is still the real ideal, but the departure from proportional taxation in one direction must be met by an equal departure in the opposite direction. This argument I would term the "special compensatory theory" as over against the general compensatory theory. The general compensatory theory upholds progression as a general principle; the special compensatory theory aims at proportion in general, but is willing to accept progression in some particular tax in order the better to realize the ultimate proportion.

This contention is undoubtedly of some force in tending to justify a progressive income or property tax in practice without upholding general progression in theory. Some of the fiercest opponents of the general theory of progression favor a progressive income or property tax on this ground. So again a progressive rental tax is frequently upheld as being in reality a proportional tax, because of the fact that as house rent decreases, its proportion to expenditure or income increases, especially in the middle and lower classes. Such an ultra-conservative as

Leroy-Beaulieu advocates progression here, without seeing however that the argument is applicable to other taxes as well. Progressive taxation of this kind is therefore really taxation proportional to income or property. Let us, however, pass over these arguments in favor of what may be called only ostensible progression, and consider the economic arguments that may be advanced for and against progressive taxation as a general theory.

The real contest between the principles of proportion and progression turns about the fundamental question as to the basis of taxation—the theory of benefits or the theory of ability. On the one hand we have the theory that a man should pay taxes in proportion to the benefits that accrue to him from the state—the so-called give-and-take, or *quid-pro-quo* doctrine, also known as the enjoyment, or bargain-and-sale, or exchange, or reciprocal, or social-dividend theory. Of this, minor variations are the protection and insurance-premium theories.<sup>1</sup> They all in last resort mean taxation according to benefits received, and we have hence summed them up under the name of the theory of benefits. On the other hand we have the theory that a man should pay taxes in accordance with his faculty or ability

<sup>1</sup>The term *quid pro quo* was first used by J. S. Mill. The term "bargain-and-sale" theory is due to Henning, "A just Income tax, how possible" (1851), 5. The term "social-dividend" theory was adopted by Parieu, "Traité des Impôts," 2nd ed. (1866), i, 30, but is first found in Chauvet. The term "exchange" theory is due to Proudhon, who boldly declared "l'impôt est un échange." The term "enjoyment" theory (*Genuss-theorie*) is the one commonly used by the German writers. The term "reciprocal" or "reciprocity" theory is due to Cooley, "Law of Taxation," 14, who speaks of taxation and protection as reciprocal.



to pay, or contributive capacity,—and as this faculty may be regarded from the two standpoints of production and consumption it is to a certain extent affected by the degree of sacrifice which the taxpayer is called upon to make.

We must take it for granted in this place that the theory of benefits as the controlling principle in general taxation has been discarded in favor of the other theory. To prove this in detail and to point out the considerations which limit the general theorem would require a discussion which belongs rather to the general bases of taxation. The point which we desire to emphasize here is that the theory of benefits has usually led to the principle of proportion; and that the theory of ability or sacrifice has usually led to the principle of progression. But this has not been universally true. For in a few cases the theory of benefits has led to the principle of progression, while the theory of ability has sometimes led not only to the principle of proportion, but also to the principle of degression rather than of progression. It will be our function to subject these various theories and conclusions to a careful criticism, in order to ascertain which, if any, is the defensible doctrine.

## CHAPTER II.

### THE BENEFIT THEORY.

The old doctrine of taxation was that of benefits. It held that taxes must stand in a definite relation to the advantages derived by the individual citizen. Since protection was generally regarded as the chief function of the state, the conclusion was drawn that taxes must be adjusted to the protection afforded. Taxes were looked upon as premiums of insurance which individuals paid to the collective insurance company—the state—in order to enjoy their possessions in peace and security.

The natural conclusion from this doctrine was proportionality of taxation. The larger a man's property or income, the greater are the benefits that accrue to him from the protection of the state. An insurance company fixes its premiums in exact proportion to the value of the property; for the value of the property determines the extent of the risk. So in the same way the state must charge for its activities and exertions, proportioning each charge to the amount of its efforts, and measuring the expenditure of the effort by the exact amount of the property or the income protected. The logically necessary outcome of this theory was declared to be the proportional taxation of all property or income.

This conclusion, however, was first modified and then openly attacked. The modification consisted in the introduction of the theory of the exemption

of the minimum of subsistence. As regards the property tax this took the shape of the demand of a proportional taxation not of *all* property, but of all property in excess of a definite minimum. As regards the income tax the modification was known as the clear-income theory of taxation. This theory was not much else than the acceptance of the Ricardian view of income. Ricardo says that "the power of paying taxes is in proportion to the net, and not in proportion to the gross revenue."<sup>1</sup> By net income he means gross income less expenses of production. Now the advocates of the clear-income theory held that the laborers' outlay for necessities also constitutes an expense of production. Hence the demand for the exemption of the minimum of subsistence. Moreover, some writers went further and extended the conception of clear income. They maintained that not only the necessary expenses of sheer subsistence, but also the expenses which contribute to maintain a standard of comfort should be declared expenses of production. The amount of income exempted would thus be considerably larger. But all the excess, or the clear income over and above these expenses of production, should still be taxed proportionately, because of the benefit theory.<sup>2</sup> The taxable income is the clear income. Proportional taxation therefore means proportional taxation of clear income only.

<sup>1</sup>Ricardo, "Principles of Political Economy and Taxation," chap. xxvi. For a history of the clear-income and total-income theory see Schmoller, "Die Lehre vom Einkommen in ihrem Zusammenhang mit den Grundprincipien der Steuerlehre," in *Tübinger Zeitschrift*, vol. xix (1863), 1-86. Cf. also Meyer, "Das Wesen des Einkommen" (1887), introduction, 1-28.

<sup>2</sup>I do not mean to infer by this that all the advocates of the clear-income doctrine were believers in the give-and-take theory. We shall see later on that this is not the case.

It is plain that this really is proportional taxation in a very peculiar sense; and that proportional taxation of clear income, *i. e.*, income above a fixed minimum, is really degressive taxation of total income. And thus without knowing it many advocates of so-called proportional taxation really favor non-proportional taxation. It may be said, moreover, in criticism, that this idea of clear income is open to serious objection. For as soon as we extend the idea of minimum of subsistence so as to include a standard of comfort,—that is as soon as we say that not only absolutely necessary, but also relatively necessary expenses should be deducted,—clear income or taxable income becomes a variable quantity, because not a fixed but a variable minimum must be deducted in each case. And since wealthier individuals generally have a higher standard of life—for they consider almost as necessities what the poor look upon as luxuries—it would follow that the wealthier a man is, up to a certain point, the greater should be the amount exempted from taxation. Proportional taxation of clear income might in this case be not degressive, but regressive, taxation of total income; it might actually tax the poor man more than the rich man. Clearly, therefore, if the idea of clear income be accepted at all, it must be restricted to the surplus above a fixed minimum of necessary subsistence.

Not only was the doctrine of proportional taxation modified in this way, but it was soon formally attacked, and from two sides. On the one hand the inadequacy of the basis was pointed out; it was affirmed that taxes cannot and should not be proportioned to benefits. On the other hand, while the

basis was still upheld, the validity of the conclusion was denied. That is, it was still asserted that taxes must be paid in accordance with benefits; but it was shown that benefits were not proportional to property or income. Let us take up the last objection first, especially since it has been almost completely overlooked.

The benefits to the individual, said some writers, increase faster than his property or income. Most of the public expenses are incurred to protect the rich against the poor, and therefore the rich ought to contribute not only actually, but relatively more. Certain governmental expenses, said other writers, confer an equal or proportional benefit on all; but there are many kinds of governmental outlay which have a special value for the rich, without losing the equal value for all. Others again confessed that the benefits of state action are theoretically enjoyed by all, but maintained that practically the benefits accrue only to the wealthier classes. Finally, some writers went so far as to invoke the aid of mathematics, and to try to prove that protection actually increases faster than property or income. The value of state protection to a man worth one million dollars is not ten times as much as its value to the man worth one hundred thousand dollars, but far more than ten times as much. The insurance argument, say these writers, proves the contrary of what it is intended to prove. For insurance companies fix their premiums not only in proportion to the amount insured, but also according to the risks, so that the same amounts often pay different premiums. Now a million dollars belonging to one man is in greater risk of being stolen or pillaged than the same amount

distributed among several men. Therefore the tax-rate or insurance premium ought to be higher. Thus from all these different points of view writers who firmly believe in the benefit theory are forced, logically as they think, to demand progressive taxation.

The situation is a curious one. The benefit theory is usually regarded by its opponents as a narrow, extreme individualistic, almost atomistic doctrine. The demand of progressive taxation is usually branded by the individualists as a socialistic demand. Yet here we have the arch-individualists who demand what other individualists regard as arch-socialism. It is a remarkable outcome of individualism.

In reality, however, this defence of progressive taxation is not very strong. Far from being the fact that the value of protection increases faster than property, the very reverse is true. A man without any income or property at all may have more money spent on him in the poor-house than hundreds of men with moderate incomes. The millionaire who is able to hire his own watchmen, his own detectives, his own military guard, and who often relies more on his individual efforts than on the government for the protection of his property, causes the state less expense than the man of smaller means who must depend entirely on the government. The rich man sends his children to private schools and colleges, the poor man has his family educated in the public schools. The rich man has his street swept by a hired laborer, the poor man has his cleaned at the expense of the city. The activity of the state is up to a certain point subject to the law of increasing returns. If we are to have any com-

parison at all between state action and private business, the state may be compared to a railroad, whose business and whose receipts may increase vastly without entailing a proportionate increase of outlay, because certain expenses are fixed, not variable charges. It does not cost the state ten times as much to settle a \$1,000 lawsuit as it does to settle a \$100 litigation. Certain expenses of government indeed vary with the value of the property, but the great majority increase in a less than proportionate ratio. And from the standpoint of benefits conferred, who would have the hardihood to say that the poor man does not value the protection afforded to his life and property just as much as the rich man? As we have just seen, he frequently values it far more, because of his entire dependence on the state. No, if protection or benefit is to be the sole test of taxation, the scale should be graduated downward, not upward; neither the protection nor the benefits grow in proportion to the property or income. Logically, thus, it might seem that the poor man should then pay relatively more than the rich man.

This whole method of argument, however, is inconclusive. The question of advantages which an individual derives from governmental action is a psychological one. It does not logically lead either to proportion, or to progressive or to regressive taxation. The degree to which a taxpayer values the public art galleries, or the public concerts, or clean streets, or the decisions of the courts, or the thousand and one other benefits conferred by state action, depends on a multiplicity of motives which may differ in every individual case. A poor man may value

them more, or he may value them less, than a rich man. Two equally rich men may value them in entirely different degrees. There is no exact and absolute measure of advantages. It is absolutely impossible to apportion to any individual his exact particular share in the benefits of governmental activity. The advantages are quantitatively immeasurable.<sup>1</sup> Proportional taxation as a necessary outcome of the benefit theory is just as illogical as progressive taxation based on the same theory.

It is this logical conclusion which has led most recent writers to abandon the premises that made the conclusion possible. But some of the advocates of the give-and-take theory sought to uphold the general doctrine on slightly different grounds. It was confessed that the protection theory or the insurance theory of taxation was illogical. But the advocates of the give-and-take theory now maintained that taxes should be proportioned to the cost of service. Not the value of the protection to the individual, but the cost of the service to the government is the test. Every man must pay the state for such service just what it costs the state to afford that service. This is still the exchange or *quid-pro-quo* theory,—but it is a variation from the untenable protection or insurance doctrine.

But the cost-of-service theory was soon found to be just as unsatisfactory as the other variations of the give-and-take theory. There is indeed no doubt that some payments made by individuals for particular

<sup>1</sup>*Cf.* the discussion of benefits as both the reason and the measure of taxation in my address on the Single Tax, in "The Single Tax discussion, reported for the American Social Science Association" (1890), 40-44.



services should represent as nearly as possible the cost of service to the government. In this all modern writers are agreed. But such payments are not taxes. They are known in public finance as fees and tolls, or what Adam Smith called "particular contributions."<sup>1</sup> But they are not taxes properly so called. For just as it is impossible to apportion taxes in general according to the protection or insurance, because it is impracticable to measure the individual benefits of general government activity, so in the same way it is impossible to apportion taxes in general according to the cost of each particular service, because it is impracticable to separate the individual's share in the total cost of general state expenses. The cost-of-service theory is just as inadequate as the protection or insurance theory. They are both variations of an indefensible whole.

Thus the entire give-and-take theory came to be abandoned as the foundation of a scientific treatment of taxation. And since the theory of benefits was largely discarded as the sole explanation of taxation, it became necessary to substitute for it another basis. In its stead has been put the doctrine of ability or faculty. Every individual should be taxed in accordance with his faculty, or his ability to pay. The meaning ascribed to these terms and the conclusions drawn from this principle we shall learn later on. Let us first study more in detail the arguments of those that advocate the theory of benefits.

<sup>1</sup>Cf. my article on "The Classification of Public Revenues," *Quarterly Journal of Economics*, vii (1893), p. 296.

## HISTORICAL APPENDIX I.

### THE BENEFIT THEORY LEADS TO PROPORTION.<sup>1</sup>

One of the first advocates of this doctrine was Hobbes. Hobbes' theory of taxation was an outgrowth of his general political theory. Since the state was simply a necessary escape from the original *bellum omnium contra omnes*, the revenues of the state, or taxes, must be regarded as the price paid for the peace purchased. Equality is the universal rule of taxation, but this equality means an equality of the burden, that is, an equality between the burdens imposed and the benefits received. The benefits conferred upon the individual are thus the real test of taxation. Taxes must be proportional to benefits and the chief benefit is protection afforded.<sup>2</sup> But it

<sup>1</sup>A few of the writers here discussed are referred to in Held, "Die Einkommensteuer" (1872), 121-135, and in Neumann, "Die Steuer nach der Steuerfähigkeit," *Jahrbücher für National-Oekonomie und Statistik*, vol. 35 (1880), 511. A fuller essay is that of Lehr, mentioned above, p. 8. Meyer's "Die Principien der gerechten Besteuerung" (1884), contains a good history of some of the principles of taxation, including an account of progressive taxation, which must, however, be separated laboriously and piecemeal from the general discussion. These German writers pay but little attention to the French, and scarcely notice the English, Dutch and Italian literature which has become of considerable importance. The work of A. Charguéraud, "*L'Economie Politique et l'Impôt*" (1864), is composed of a series of extracts from a few of the French authors. Chapters i, iii and xiv (de l'impôt, l'impôt progressif, l'impôt sur le revenu) will be found useful for comparison.

<sup>2</sup>"Ad tollendam ergo justam querimoniam, quietis publicae interest, et per consequens ad officium pertinet imperantium ut onera publica aequaliter ferantur. Praeterea cum id quod a civibus in publicum confertur, nihil aliud sit *praeter emtae pacis pretium*, rationis est ut ii qui aequae pacis participant, aequas partes solvant. . . . Aequalitas autem hoc loco intelligitur non pecuniae sed oneris, hoc est aequalitas rationis *inter onera et beneficia*. Quam-

is significant that Hobbes lays down the rule that the best test of benefits is not property or income, but expense. The theory of benefits thus resolves itself into a proportional tax on expense. "For what reason is there," says Hobbes, "that he which laboureth much, and sparing the fruits of his labour, consumeth little, should be more charged, than he that living idly, getteth little, and spendeth all he gets; seeing the one hath no more protection from the commonwealth than the other? But when the impositions are laid upon those things which men consume, every man payeth equally for what he useth, nor is the commonwealth defrauded by the luxurious waste of private men."<sup>1</sup>

Among the earliest defenders of the contract theory of the state was Hugo Grotius; his theory of taxation is hence simply the give-and-take theory. In one sense, therefore, Grotius may be declared the originator of the benefit theory. He devotes but little space to taxation, but in a noteworthy passage, while discussing transit dues and tolls, he maintains

quam enim pace omnes aequaliter fruuntur, non tamen beneficia a pace omnibus aequalia sunt. Nam alii plus, alii minus acquirunt. Et rursus alii plus, alii minus consumant." "De Cive," chap. xiii.

In the "Leviathan" Hobbes repeats his view in English: "To Equall justice appertaineth also the Equall imposition of Taxes; the Equality whereof dependeth not on the Equality of riches, but on the Equality of the debt that every man oweth to the Commonwealth for his defence. . . . For the Impositions that are layd on the people by the Sovereign Power are nothing else but the Wages, due to them that hold the publique Sword, to defend private men in the exercise of severall Trades and Callings. . . . Which considered, the Equality of Imposition, consisteth rather in the Equality of that which is consumed, than of the riches of the persons that consume the same." Chap. 30, part 2, p. 181, of the 1651 edition. (Reprint of 1881, p. 270.)

<sup>1</sup>"Leviathan," p. 271 of reprint of 1881.

that the burdens must be proportional to the benefits received in the shape of protection, and must not exceed this amount of benefit.<sup>1</sup> Taxation is, therefore, the price of protection.

In the same way Pufendorf declares taxes to be nothing but the price of protection, although he does not accept expenses as the test. But the principle must be that of proportion.<sup>2</sup> And many of the publicists of the following century simply repeat the same ideas.

When we come to the professed economists we find many of them taking the same view. The economist and statesman, Sully, already in the sixteenth century had maintained that taxes must be proportional to the benefits derived by the tax-payer and must, therefore, be in a direct ratio to his profits.<sup>3</sup> So the great fiscal reformer, Vauban, held that every

<sup>1</sup>"Quaeritur an ita transeuntibus mercibus terra aut amne, aut parte maris quas terrae accessio dici potest, vectigalia imponi possint ab eo, qui in terra imperium habet. *Certe quaecunque onera ad illas merces nullam habent respectum, ea mercibus istis imponi nulla aequitas patitur.* Sic nec capitatio, civibus imposita ad sustentanda reipublicae onera ab exteris transeuntibus exigi potest. Sed si *ad praestandam securitatem* mercibus aut inter caetera etiam ob hoc onera sustinentur, *ad ea compensanda* vectigal aliquod mercibus potest, dum modus causae non excedatur." Hugo Grotius, "De Jure Belli ac Pacis" (1625), lib. ii, cap. 2, §14, 1.

<sup>2</sup>"Tributa nihil aliud atque merces quam singuli pendunt civitati pro defensione salutis et bonorum." Pufendorf, "De Jure Naturae et Gentium," book vii, chap. v, 6. In his essay in the *Jahrbücher für Nationalökonomie*, mentioned above p. 87, Professor Neumann has collected a number of similar statements from the German and Dutch publicists of the 17th and 18th centuries.

<sup>3</sup>"L'impôt ne devrait être que la mise apportée par chaque individu dans la vie civile pour avoir part à ses bienfaits; il devrait être proportionné aux avantages qu'en retire le contribuable et prélevé sur ses bénéfices." Sully, quoted in De Girardin, "L'Impôt" (1852), 150.

one needs the protection of the state, that the prince cannot protect his subjects without adequate funds, and that therefore everyone is under a natural obligation to pay taxes proportionally to his revenue.<sup>1</sup> It is true, indeed, that Vauban laid down these rules in order to enforce his great doctrine of universality of taxation, and that but little exception can be taken to his manner of statement; but the fact remains that he based his reasons on the theory of benefits, and deduced from this the doctrine of proportional taxation.

The earliest English scientific writer on taxation is Sir William Petty. Petty lays down his benefit theory in the following words: "It is generally allowed by all that men should contribute to the Publick charge but according to the share and interest they have in the Publick Place; that is according to their Estates and Riches."<sup>2</sup> But Petty goes on to show that this demand of proportional taxation

<sup>1</sup>Vauban's *Maximes Fondamentales* are as follows:

I. Il est d'une évidence certaine et reconnue par tout ce qu'il y a de peuples policés dans le monde, que tous les sujets d'un Etat ont besoin de sa *protection*, sans laquelle ils n'y sauraient subsister.

II. Que le prince, chef et souverain de cet Etat, ne peut donner cette protection si ses sujets ne lui en fournissent les moyens, d'où s'ensuit:

III. Qu'un Etat ne peut se soutenir, si les sujets ne le soutiennent. Or, ce soutien comprend tous les besoins de l'Etat, auxquels, par conséquent, tous les sujets sont obligés de contribuer. *De cette nécessité* il résulte:

Une obligation naturelle aux sujets de toutes conditions, de contribuer à proportion de leur revenu ou de leur industrie.

Vauban, "Dime Royale" (1707). In *Economistes Financiers du xviii siècle* (ed. Daire, 1843), 47.—"Il est raisonnable que tous contribuent selon leurs revenus." *Ibid.*, 56.

<sup>2</sup>Petty, "A Treatise of Taxes and Contributions" (1677), chap. xv, 68.

means a tax proportional to expense, "since there are two sorts of riches, one actual and one potential." His conclusion from the principle of benefits is, that it is "natural justice that every man should pay according to what he actually enjoyeth."<sup>1</sup>

The Physiocrats were all advocates of the theory of benefits and proportional taxation, although their practical proposal was a single tax on land. Quesnay has not much to say about the philosophic basis of taxation, but he maintains that the best tax is that which is *proportional* to net produce.<sup>2</sup> To some it might appear doubtful whether the Physiocrats based their conclusions on the theory of benefits. But this doubt is soon dispelled when we remember the views of important members of the school like Turgot and the elder Mirabeau. Turgot held that taxation should be proportional to the benefits derived by the individual from the action of the state.<sup>3</sup> And we must not forget his answer to the demand of an enthusiast for progressive taxation: "We must execute the author and not the project."<sup>4</sup> Mirabeau the elder said that tax is a payment made by the individual in return for the protection afforded by gov-

<sup>1</sup>Petty, "A Treatise of Taxes and Contributions" (1677), chap. xv, 72.

<sup>2</sup>"La forme d'imposition la plus simple . . . est celle qui est établie *proportionnellement* au produit net." Quesnay, "Notes sur les Maximes Fondamentales," etc. *Maxime V.* In *Oeuvres Économiques*, ed. Oncken (1888), 339.

<sup>3</sup>"L'impôt ne devrait être que la mise apportée par chaque individu dans la vie civile pour avoir part à ses bienfaits; et devrait se proportionner aux avantages qu'en retire le contribuable." Quoted by Gandillot "Principes de la Science des Finances," i, 208. I have been unable to find this particular sentence in my edition of Turgot. *Cf.*, however, Turgot's general views in "Oeuvres" (Daire's ed.), i, 392-444.

<sup>4</sup>*Cf.* above, p. 72.

ernment since the expenses incurred by the state simply assure to the citizens an equivalent for what they give.<sup>1</sup> Taxes must hence be proportional to the revenue of the citizens (although like the other Physiocrats he found this proportion chiefly in the single land tax).

Montesquieu's definition is well known: "The revenues of the state are a part of his property which each citizen gives in order to be sure of the other part, or in order to enjoy it in comfort."<sup>2</sup> But while Montesquieu thus advocates the protection theory, he defends the progressive principle for other reasons, as we shall see later on. The definition of Raynal is about the same: "Taxes are the sacrifice of a part of one's property for the protection and conservation of the rest."<sup>3</sup> So also Montyon contends that the sacrifice of a part guarantees the whole, and that

<sup>1</sup>"La contribution du Particulier n'est autre chose que le service qu'il rend au Public; comme aussi la dépense du Public n'est autre chose que la tutelle des Particuliers, ou la sûreté de l'équivalent qui doit leur revenir." Mirabeau, "Théorie de l'Impôt" (1761), 336. He maintains hence "que l'imposition soit dans une proportion connue et convenable avec les revenus," *ibid.*, 374, and explains this further by showing that the tax must be levied on land and also "proportionnellement aux logemens ou loyers d'habitation," *ibid.*, 392. Mirabeau's statement, *ibid.*, 39, "que le riche doit contribuer beaucoup plus que le pauvre et coûter beaucoup moins, proportion gardée" cannot be taken as a demand for progressive taxation. Garnier, "Traité des Finances," 355, makes a great mistake here in calling Mirabeau an advocate of progression.

<sup>2</sup>"Les revenus de l'Etat sont une portion que chaque citoyen donne de son bien pour avoir la sûreté de l'autre, ou pour en jouir agréablement." Montesquieu, "L'Esprit des Loix" (1748), livre 13, chap. 1.

<sup>3</sup>"L'impôt peut être défini le sacrifice d'une partie de la propriété pour la défense et la conservation de l'autre." Raynal, "Histoire Philosophique et Politique des Etablissements et du Commerce des Européens dans les deux Indes" (1780), vol. iv, book 19, chap. x, 636.

taxation is simply an investment which bears interest. But Montyon, like Montesquieu, defends progressive taxation on other grounds, which will be discussed hereafter.<sup>1</sup>

The chief German writers on public finance before Adam Smith held that the doctrine of proportion was a logical conclusion from the principle of benefits. So Justi maintains that since the man with more property enjoys more protection, everybody must pay taxes in proportion to his property." "Equality of taxation arises from the fact that all citizens enjoy equal protection, security and justice. But the equality must follow, not the person, but the property. For the richer a man is, the greater the protection and security that he enjoys."<sup>2</sup>

Adam Smith has been claimed as a defender both of the benefit and of the faculty theory, both of the proportional and of the progressive doctrine. It is true that he is not always consistent. Isolated passages may be taken to prove either view. But a

<sup>1</sup>"Si l'impôt distrait une portion de la propriété privée pour la transférer à la propriété publique, le sacrifice de cette portion paie la garantie de la totalité. Dans la réalité le contribuable, en acquittant le tribut qui lui est imposé, ne fait qu'un placement d'argent dont il tire un fort intérêt." Montyon, "Quelle Influence ont les diverses espèces d'Impôts sur la Moralité, l'Activité et l'Industrie des Peuples," 1808. In "Mélanges d'Economie Politique" (ed. Guillaumin, 1848), ii, 375. See below, p. 160.

<sup>2</sup>"Alle Unterthanen haben an dem Schutz des Staats und andern . . . Wohlthaten gleichen Antheil. Wenn aber diese gerechte Gleichheit beobachtet werden soll, so muss vornehmlich die Proportion des Vermögens zum Grunde gelegt werden, weil sich der Schutz des Staats hauptsächlich in Ansehung des Vermögens zeigt, und weil derjenige, der ein grosses Vermögen besitzt, ohne Zweifel mehr Schutz genießt als Derjenige, der ein geringes oder gar kein Vermögen hat." Justi, "Staatswirthschaft" (1755), zweiter theil, § 228, 2nd ed. (1758), 312.



careful consideration of the general trend of his ideas must convince us that Adam Smith held in the main to the benefit theory and proportional taxation. His famous principle is, "The subjects of every state ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the state."<sup>1</sup> That is to say, although he uses the word "ability" he immediately goes on to explain that taxation should be proportioned to the benefits received in the way of income. And although he says in another part of the same chapter, "It is not very unreasonable that the rich should contribute to the public expense not only in proportion to their revenue, but something more than in proportion,"<sup>2</sup> yet this sentence did not lead him to demand progressive taxation at all, and must be regarded as a mere passing remark. Adam Smith upheld proportional taxation because, as he said, "the expense of government to the individuals of a great nation is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate."<sup>3</sup> This is essentially the individualistic, the give-and-take theory.

Most of the English writers until the middle of the century show the influence of Adam Smith in this respect. The Bishop of Llandaff is interesting as

<sup>1</sup>Adam Smith, "Wealth of Nations," book v, chap. ii; Rogers ed. ii, 414.

<sup>2</sup>*Ibid.*, ii, 435. He is speaking of a *proportional* tax on house-rents, which he thinks falls heaviest on the rich, but which is nevertheless quite justifiable, for the reason indicated.

<sup>3</sup>*Ibid.*, ii, 415.

being the first Englishman to advance the insurance-premium theory of taxation, later on associated with the name of Thiers. He states that the true principle of taxation "seems to me to be this, that every man should pay for the protection of his property by the state in exact proportion to the value of the property protected; just as merchants who risk their goods on board a vessel pay an insurance in proportion to the value of the goods insured."<sup>1</sup> Many years later, McCulloch based his demand of proportional taxation on this same insurance-premium theory. "The state has been ingeniously compared by M. Thiers to a mutual insurance company where the payments by the members are exactly proportioned to the sums that they have insured, or to their interests in the company. And so it should be with the subjects of government. . . . It follows that every one should contribute to its support according to his stake in the society or his means. This is a plain intelligible rule, that should neither be forgotten nor overlooked."<sup>2</sup> McCulloch goes on to explain his meaning by saying that "no tax on incomes can be a just tax unless it leaves individuals in the same relative condition in which it found them." But this, he thinks, involves proportional taxation. "Even if taxes on income were otherwise the most exceptionable, the adoption of the principle of graduation would make them among the very worst that could be devised. The moment you abandon, in the framing

<sup>1</sup>Quoted in Frend, "The Principles of Taxation, or Contribution according to Means" (1804), 16.

<sup>2</sup>J. R. McCulloch, "A Treatise on the Principles and Practical Influence of Taxation, or the Funding System" (1845); 3rd ed. (1863), 17.

of such taxes, the cardinal principle of exacting from all individuals the same proportion of their income, or their property, you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit.”<sup>1</sup> This insistence upon “injustice” is a remarkable statement for a writer who maintains, in another part of the same work, that a statesman in levying taxes need not concern himself about the equities at all, but look only to the expediency and convenience of collection. This leave-them-as-you-find-them theory does not, however, necessarily lead to proportional taxation, as we shall see later on.

Senior puts the give-and-take theory in somewhat less exceptionable form, when he says: “We consider all that is received by the officers of government as given in exchange for services affording protection, more or less complete, against foreign or domestic violence or fraud. It is true that this exchange is conducted on peculiar principles. . . . No individual is permitted to refuse his share of the general contribution, though he should disclaim his share in the general protection. But the transaction, though often involuntary and still more often inequitable, is still an exchange and on the whole a beneficial exchange. The worst and most inefficient government

<sup>1</sup>J. R. McCulloch, *op. cit.*, 143-145. The same ideas were expressed by McCulloch in very much the same words in an anonymous article in the *Edinburgh Review*, vol. 57 (1833), 143. President Walker, who quotes the article in his “Political Economy,” § 590, does not seem to be aware that the article is written by McCulloch. But neither the idea nor the phrasing is original with McCulloch. It is found almost word for word in Frend, “The Principle of Taxation” (1804), 40, as well as in some of the German writers, like Schlözer in 1807. See below p. 106 and p. 152.

affords to its subjects a cheaper and more effectual protection than they could obtain by their individual and unaided exertions.”<sup>1</sup>

By all means the strongest plea in English literature for proportional taxation as the outcome of the give-and-take theory, is to be found in the writings of Sargant. But Sargant is the chief advocate of the cost-of-service theory as over against the value-of-service theory. He pictures the gradual development of a community from barbarism to civilization. “In all these cases there is one simple principle by which the contribution of each colonist is determined; every one pays in proportion to the expense incurred by Government in protecting him. Just as he pays the storekeeper for the goods he buys, the lawyer for the advice he asks, the ploughman for the labor he hires, so he pays the government for the protection he receives; and the amount he contributes is not regulated by the colonist’s ability to pay, but by the cost incurred by Government on his behalf. This principle has been overlooked, or slighted, in most, if not in all, the reasonings I have seen. It has been stated indeed, that a man pays for the protection he receives; but it has not been stated that, in the first instance, the amount he pays is only a reimbursement of the expense incurred by Government on his behalf.”<sup>2</sup> Sargant is incorrect, as we shall see, in his belief that the theory had not been advanced previously. But it is noteworthy that he declares this principle the only way of escape from

<sup>1</sup>Senior, “Political Economy” (1836); 6th ed. (1872), 87.

<sup>2</sup>William Lucas Sargant, “An Undiscriminating Income Tax Reconsidered.” *Journal of the Statistical Society*, vol. 25 (1862), 341.

progressive taxation. "If this principle, of proportion between government cost and individual taxation, be not the foundation of just taxation, what is the foundation? And what other defence have we against graduation? . . . The very name graduation stinks in the nostrils of wealthy men. Why is graduation an indefensible confiscation? Why is graduation an indefensible part of socialism? Because, I reply, graduation is unjust; because graduation is a filching from rich men a payment for that which they do not receive; because it is a demand on rich men to pay a shilling for the loaf which men of moderate means get for ninepence!"<sup>1</sup> The principle of justice is the rule that each man should pay for government protection just as he pays for the commodities he buys. "Every one ought to reimburse to the government that part of the necessary expenditure which is incurred on his behalf."<sup>2</sup> And this to Sargant means a proportional income tax.

The French writers of this century, with only a few exceptions and until recently, have been strong advocates of the benefit theory. Already at the outbreak of the French Revolution, Mirabeau the younger drew up a report which was spread broadcast by the constituent assembly, in which he maintained that "taxation is a kind of compensation, the price of the benefits which society procures for its members. A tax is simply an advance made to secure the protection of the social order, and therefore

<sup>1</sup>William Lucas Sargant, "An Undiscriminating Income Tax Reconsidered." *Journal of the Statistical Society*, vol. 25 (1862), 352.

<sup>2</sup>*Ibid.*, 376. It is true that Sargant afterwards recommends the exemption of the minimum of subsistence; but this he says is not justice, but mercy. Of course it is illogical from his "cost-of-service" standpoint.

a condition imposed on everyone by all.”<sup>1</sup> Later on, indeed, the revolutionists demanded progression, but that was only after another basis had been found for taxation.

Coming to the middle of the century we find the great apostle of the protection or insurance theory in Thiers. Thiers maintains that everyone must pay proportionally to his earnings or his fortune for the “most natural reason that the cost of protection must be shared according to the amount of property protected.”<sup>2</sup> Progressive taxation is absurd. If you buy one hundred pounds of some commodity from a merchant you pay for a hundred; if you buy one thousand pounds, you pay for a thousand. “Would you find it natural to be charged more per pound if you buy 1,000 than if you buy 100? On the contrary, the merchant or the company will generally let you have the larger quantity at a cheaper rate, because of the greater profits. . . . But what is society if not a stock company, in which everyone has more or less shares?”<sup>3</sup> And he concludes that taxes must be “proportional to the expenses incurred by the state in your behalf, and to the benefits you have

<sup>1</sup>“L’impôt est une dette commune des citoyens, une espèce de dédommagement et le prix des avantages que la société leur procure. . . . L’impôt ne sera plus qu’une avance pour obtenir la protection de l’ordre social, une condition imposée à chacun pour tous.” Assemblée Nationale, 1789, “Adresse aux Français, sur la Contribution Patriotique,” written by Mirabeau.

<sup>2</sup>“Chacun doit contribuer aux dépenses publiques proportionnellement à ce qu’il gagne ou à ce qu’il possède, par la raison fort naturelle que l’on doit concourir aux frais de la protection sociale suivant la quantité de biens protégés.” Thiers, “De la Propriété” (1848), 352.

<sup>3</sup>“Qu’est-ce donc que la société, sinon une compagnie, où chacun a plus ou moins d’actions, et où il est juste que chacun paye en raison du nombre de celles qu’il possède.” *Ibid.*, 355.

received, just as in an insurance company the premium is proportioned to the amount insured."<sup>1</sup> Anything else would be "revolting arbitrariness."<sup>2</sup> Thiers, we see, combines the cost-of-service with the value-of-service theory, not seeing that they are really inconsistent. In much the same way Du Puynode defines a tax as "a part set aside by everybody for the common purse in order to guarantee the peaceful enjoyment of his property and the respect of his person."<sup>3</sup> Hence taxes must be proportional. "Do two hundred francs of income require a greater guarantee, a more difficult protection when they belong to one man, than when they are divided between two or three? Evidently not. Proportionality is the rule of all insurance policies."<sup>4</sup>

Emile de Girardin is a strong believer in the insurance theory. "Every tax which is not the guarantee of a risk, the price paid for a commodity, or the equivalent of a service, is a tax which ought to

<sup>1</sup>"Ainsi l'impôt proportionnel c'est-à-dire l'impôt proportionné à la part des frais que la société est supposée avoir fait pour vous, au service que vous en avez reçu, comme en matière d'assurances la prime est proportionnée à la somme assurée, rien de mieux; j'aperçois là un principe." *Ibid.*, 363.

<sup>2</sup>"Un arbitraire révoltant." *Ibid.*, 364. "La proportionnalité est un principe, la progression n'est qu'un odieux arbitraire." *Ibid.*, 362.

<sup>3</sup>"Aussi l'impôt peut-il encore se définir la part que chacun remet à la caisse commune, pour s'assurer la paisible jouissance de ses biens et le respect de sa personne." De Puynode, "De la Monnaie, du Crédit, et de l'Impôt" (1853), ii, 70.

<sup>4</sup>"Deux cents francs de revenu, exigent-ils une garantie plus forte, une garde plus difficile quand un seul les perçoit que lorsqu'ils reviennent à deux, et à deux qu'à trois? Evidemment non. La proportionnalité est la règle de toutes les polices d'assurances." *Ibid.*, ii, 92.

be abandoned.”<sup>1</sup> And in another place he defines taxation as the “premium of insurance paid by those who possess in order to insure themselves against all risks of a nature likely to trouble them in their possessions or enjoyments.”<sup>2</sup> Girardin thus concludes that the *impôt inique*, or unjust tax, as it exists to-day, must be replaced by the *impôt unique*, or single tax; and this single tax is nothing but a “voluntary insurance premium, proportional to the value of the property insured.”<sup>3</sup>

So also Baudrillart, in a widely read manual, maintains that the remuneration must be proportioned to the service, and that it is quite right to compare taxation to a fire insurance premium, the “natural and just principle of which is to guarantee risks in proportion to value. Proportional, not progressive, taxation is, therefore, the true ideal.”<sup>4</sup> And other writers harp on the same key. For instance, Chauvet is the first to develop what he calls the social-divi-

<sup>1</sup>“Tout impôt qui n'est pas la garantie d'un risque, le prix d'une marchandise ou l'équivalent d'un service est un impôt qui doit être abandonné.” Emile de Girardin, “L'Impôt” (1852), 156.

<sup>2</sup>“Tel que nous le comprenons, l'impôt doit être la prime d'assurance, payée par ceux qui possèdent, pour s'assurer contre tous les risques de nature à les troubler dans leur possession ou leur jouissance.” *Ibid.*, 249.

<sup>3</sup>“L'impôt forcé est transformé en prime volontaire d'assurance proportionnelle à la valeur des objets assurés.” It is voluntary because “point de capital, point d'impôt.” *Ibid.*, 300-301.

<sup>4</sup>“Le principe, comme dans une compagnie d'assurance contre l'incendie, le principe naturel et juste est de payer le risque en proportion de la valeur garantie, et quelle que soit la nature de cette valeur. . . . L'équité véritable, c'est le paiement proportionnel au risque couru, à la quantité des biens garantis. . . . L'impôt doit donc être proportionnel; tel est en matière de taxation le véritable idéal.” H. Baudrillart, “Manuel d'Economie Politique” (1857), i, 5th ed. (1883), 515-517. Cf. his “Economie Politique Populaire,” 2nd ed. (1876), 318.



dend theory. He holds that society owes to every individual a dividend (in the shape of benefits) proportional to what he pays. "The taxpayers are simply shareholders, to each of whom the social body must distribute proportional profits."<sup>1</sup> And Ginoulhiac develops the same idea when he asserts that "taxes are not a burden, but a portion of produce set aside for the state in virtue of, and as a return for, its coöperation."<sup>2</sup>

Proudhon indeed strongly opposes the insurance theory—what he calls *l'impôt assurance*—but he substantially holds to the give-and-take theory in defining a tax as the "portion to be paid by each citizen for the cost of public services. Taxation is an exchange."<sup>3</sup> Proudhon has a great many hard words for progressive taxation. He calls it "a pure hypocrisy, a cowardly and shameful transaction, a delusion, a suicide, a confiscation, a mystification, a fiscal plaything, the essence of arbitrariness without check or limit, the most stupid and unworthy of cheats," etc.<sup>4</sup>

<sup>1</sup>"La contribution est une mise que fait chaque individu dans l'espérance légitime de retirer de son emploi une utilité proportionnelle, d'où il suit que la société doit en avantages et en jouissances, à chaque contribuable, un *dividende* proportionnel à sa contribution. Les contribuables sont donc comme des actionnaires de toutes les opérations publiques, à chacun desquels le corps social devrait distribuer une somme d'avantages proportionnels à sa mise." Quoted in Girardin, "L'Impôt," 155.

<sup>2</sup>"L'Impôt n'est pas une charge, c'est une part des produits accordée à l'Etat, en vertu de sa coöperation." Ginoulhiac, "L'Economie Politique du Peuple," 321.

<sup>3</sup>"L'impôt est la quote-part à payer par chaque citoyen pour la dépense des services publics. . . . L'impôt est un échange." Proudhon, "Théorie de l'Impôt" (1861), 39; new ed. of 1868, 40.

<sup>4</sup>Proudhon, "Système des Contradictions Economiques" (1845), chap. vii; "Théorie de l'Impôt," chap. iv, § 117 (pp. 9, 185, etc.). He

But his arguments are all based on the assumption that taxes are inevitably shifted to the consumers, and that progressivity is hence a delusion. Although he states in another part that the idea of proportional taxation conforms to the principle of give and take,<sup>1</sup> yet the opponents of progression, who often quote him, must remember that Proudhon afterwards declares proportional taxation equally bad, because proportional taxation is really regressive taxation or "progressive taxation in the sense of misery."<sup>2</sup> This constitutes one of his famous "economic contradictions" which leads him to the conclusion that taxation in society as it is constituted to-day can never be just. Proudhon, however, cannot be claimed as an authority by anybody, because his opinions so often shifted. Thus, in his celebrated speech of 1848, in the debate in the French assembly, he upholds progressive taxation in general;<sup>3</sup> and even in his later book on taxation, he defends the progressive tax on collateral inheritances, on buildings, on stamps, etc.<sup>4</sup> But the important point for us is that in so far as Proudhon upholds proportional taxation at all, it is as a result of the benefit theory.

concludes, "Quand donc cessera-t-on d'entretenir le public de ce bilboquet de la progression, qui n' a été imaginé que pour donner un vernis de philanthropie à l'impôt et ménager la pudeur des riches." "Contradictions Economiques," 240.

<sup>1</sup>"De là l'idée que l'impôt, devant être payé par chacun, doit être proportionnel à sa fortune: idée conforme au principe de l'échange." "Théorie de l'Impôt," 113, 114.

<sup>2</sup>"L'impôt, direct ou indirect, proportionnel dans la forme, se résout fatalement en une capitation générale laquelle n' ayant, ni ne pouvant avoir, égard aux différences de la fortune, constitue un véritable impôt progressif dans le sens de la misère." *Ibid.*, 171.

<sup>3</sup>"Discours prononcé à l' assemblée nationale le 31 Juillet, 1848." In "Oeuvres," vii, esp. p. 275.

<sup>4</sup>"Théorie de l'Impôt," 272-273.

Even among some of the most recent French writers the defence of proportional taxation resting on the benefit theory is still common. So Dupont and Batbie claim that since the government protects both persons and property, the tax must logically be composed of two parts—a poll tax equal for all, and a second tax proportional to property or income.<sup>1</sup> Michaud and Le Hardy de Beaulieu advocate the proportional tax on net income, because this is the best test of the services received from the state in the shape of protection.<sup>2</sup>

The most noteworthy of recent French writers is Leroy-Beaulieu. Leroy-Beaulieu is a great opponent of progressive taxation. It is true that he shows the complete fallacy of the protection, or insurance, theory of taxation in discussing the general nature of taxation. But when he treats of progressive taxation he utterly discards the equality-of-sacrifice, or the faculty theory (because he thinks it logically leads to progressivity), and maintains that it is the function of the state not to impose equality of sacrifice, but to recover from each citizen "the just price of service

<sup>1</sup>"Tous les citoyens, riches ou pauvres, doivent un impôt à l'Etat qui garantit la sûreté et la liberté de chacun; tous ceux qui possèdent doivent un impôt corrélatif à l'importance vraie ou supposée de leurs biens, comme rémunération de l'action protectrice exercée par l'Etat." Etienne Dupont, "L'Impôt" (1872), 6. "Que l' on soit riche ou pauvre, on reçoit de la société une utilité égale sous le rapport de la protection accordée à la personne; l'inégalité des fortunes fait, au contraire, qu' au point de vue de la protection des biens les dépenses publiques profitent inégalement aux contribuables." Batbie, "Nouveau Cours d'Economie Politique" (1866), ii, 225.

<sup>2</sup>"L'impôt proportionnel sur le revenu net est correspondant aux services reçus de l'Etat sous forme de protection." Michaud, "L'Impôt" (1885), 196. Cf. Le Hardy de Beaulieu, "Traité Élémentaire d'Economie Politique," 2nd ed. (1866), 295.

rendered and their just part in the interest and payment of the national debt.”<sup>1</sup> And he repeats the old question which we have met with so frequently, “What would we say of a baker or grocer, or any merchant, who would demand for the same commodities a price varying with the wealth of the purchaser?”<sup>2</sup> Thus Leroy-Beaulieu comes back to the benefit theory and makes it the basis of his objection to progressive taxation. A little later on he upholds the progressive rate in the rental tax, and the exemption of the minimum of subsistence from the income tax—but in both cases the progression is to him only apparent, not real. The progressive rental tax is simply a presumption of proportional income; and the exemption of the lower income or the nominally degressive tax is simply a compensation for the regressive indirect taxes. So that proportional taxation is the ideal. But the point to be noticed is that the basis of proportional taxation with Leroy-Beaulieu is still the benefit theory, the same theory which he so hotly opposes in a preceding chapter. And more recently still, Bonnet, who also starts out with objecting to the give-and-take theory of taxation, is equally illogical in making this very theory his main defense of proportional taxation.<sup>3</sup>

<sup>1</sup>“Il ne s’agit nullement pour l’Etat d’infliger des sacrifices plus ou moins égaux aux individus, mais bien de recouvrir de chacun d’eux le juste prix des services rendues et leur juste part dans les intérêts et l’amortissement de la dette nationale.” Leroy-Beaulieu, “*Traité des Finances*,” 5th ed. (1892), i, 146.

<sup>2</sup>“Ne dirait-on pas que ce système est absurde?”

<sup>3</sup>“Un abaissement de prix correspondant à la diminution des frais qu’ on procure, telle est la loi générale du commerce; elle est équitable et favorise le progrès économique. Pourquoi ne l’applique-t-on pas en ce qui concerne l’Etat. . . . Mais si le gouvernement ne crée pas une échelle d’impôt décroissante en raison des

The German writers on public finance during this century—and their name is legion—were for a long time under the spell of Adam Smith and the early French authors, and were in consequence firm supporters of the benefit theory. In the writings of the chief publicists we find all the shades of the doctrine expressed—the protection theory, the insurance theory, the cost-of-service theory, the value-of-service theory, etc., leading generally to the demand for proportional taxation.

One of the earliest writers, Schlözer, shares with the Englishman already quoted, the doubtful honor (generally ascribed to Thiers) of being the first to advance the insurance-premium theory.<sup>1</sup> So Harl, the naive enthusiast for the general property tax, discusses the income tax as well and demands proportional taxation as self-evident. “Progressive taxation is not only against all justice, but against the nature of things.”<sup>2</sup> Sartorius makes the objection, which afterwards became so common, that progressive taxation must finally swallow up the total income of the rich.<sup>3</sup> Kröncke says that taxes can be

sommes qu'on a à payer, qu'on n'aille pas au moins lui demander d'en établir une progressive; ce serait le renversement de toutes les lois.” Victor Bonnet, “La Question des Impôts” (1879), 44.

<sup>1</sup>“In dieser Rücksicht könnte man die Steuern mit den unter Kaufleuten üblichen Assecuranz-prämien vergleichen.” Christian von Schlözer, “Anfangsgründe der Staatswirthschaft,” ii (1870), 157. See above p. 96.

<sup>2</sup>“Es ist nicht nur gegen alle Gerechtigkeit, sondern selbst gegen die Natur der Sache, wenn . . . eine Steigerung der Procente angenommen wird.” Harl, “Vollständiges theoretisch-praktisches Handbuch der gesammten Steuer-Regulirungen oder der. . . . Steuerwissenschaft,” ii (1816), § 73.

<sup>3</sup>“Wollte man ein solches Steigen der Procente. . . . stattfinden lassen, so würde nothwendig erfolgen, dass der welcher das grösste Einkommen besäze, zuletzt nichts behielte.” Sartorius,

levied only in proportion to the security afforded by the state to property or income, and thinks that this means a proportional tax on all property or income.<sup>1</sup> So Krehl, Kessler and Kremer take substantially the same position.<sup>2</sup> Later on Rotteck also maintains that the ideal principle of taxation is to apportion taxes according to each man's share in the benefits of the state, and that the nearest practical approach to this is a tax proportional to property or income.<sup>3</sup>

Even during the third quarter of this century the give-and-take theory has been upheld in all its boldness by the German writers of the so-called Manchester school. Thus, Faucher calls the give-and-take principle the principle of liberty as over against the "communistic" faculty theory, and demands the pure property tax as the real premium of insurance.<sup>4</sup> So Braun terms the proportional income tax the really just insurance premium for person and prop-

"Ueber die gleiche Besteuerung . . . des Königreiches Hannover" (1815), 288.

<sup>1</sup>"Die Steuern können also nur in Verhältnisse der durch den Staat erlangten Sicherheit des Vermögens oder Einkommens rechtlich vertheilt werden." . . . "Nicht bloss die Ueberschüsse des Einkommens, oder das relative Einkommen und relative Vermögen, sondern das positive Einkommen und Vermögen muss als Massstab zur Vertheilung der Staatsbedürfnisse angenommen werden." E. Kröncke, "Ueber die Grundsätze einer gerechten Besteuerung" (1819), 9, 11. Cf. similar utterances in his "Ausführliche Anleitung zur Regulirung der Steuern" (1810), § 15, p. 21.

<sup>2</sup>Krehl, "Skizze eines Steuersystems," § 14, and "Steuersystem" (1816), § 71; Kessler, "Die Abgabekunde" (1818), *passim*; Kremer, "Darstellung des Steuerwesens" (1825), § 82.

<sup>3</sup>"Die Beiträge müssen nach Verhältnisse der Theilnahmen an den Vortheilen des gesellschaftlichen Verbandes bestimmt werden." Rotteck, "Lehrbuch der ökonomischen Politik," vol. iv of his "Lehrbuch des Vernunftrechtes und der Staatswissenschaften" (1835), 287.

<sup>4</sup>Julius Faucher, "Staats- und Communal-Budgets" (1863), ii, 204.

erty,<sup>1</sup> and Graffenried says that every tax is sheer confiscation unless the owner receives a directly proportional return for it.<sup>2</sup>

One of the ablest of the more recent German writers, von Hock, develops a peculiar theory, very like that afterwards elaborated by Dupont and Batbie in France. According to Hock all taxes are rewards paid for state services. But the benefits conferred by state action are partly incalculable. Certain general principles, however, may be laid down. In the first place, whoever lives in the state enjoys the protection of his person and takes part in the welfare of the commonwealth. These benefits are the same for every one. Secondly, all people who possess or receive anything within the state enjoy the protection the state affords to their property or income. These benefits are best measured by the extent of the property or income.<sup>3</sup> Thirdly, everyone who calls upon the state for particular services ought to pay for the cost of these services. Hence, concludes

<sup>1</sup>“Die Blut- und Einkommensteuer(ist) die Versicherungs-prämie, welche das Volk für die generelle Lebens-und Eigenthumsassecuranz der Staatsgewalt, bei welcher es versichert ist, entrichtet.” Braun, “Staats- und Gemeindesteuern,” ii (1866), 9.

<sup>2</sup>“Jeder vom Staate bezogene Einkommenstheil ist seinen Eigenthümern mit Unrecht entzogen, wenn ihm nicht Entsprechendes dafür geleistet wird.” v. Graffenried, “Ueber die Einkommensteuer” (1855), 58.

<sup>3</sup>“Der Werth des staatlichen Schützes für seinen Besitz oder Erwerb und die Vortheile, welche ein wohl geordneter und verwalteter Staat auf die Steigerung aller Werthe ausübt,” is to be measured by the “Nutzen den sie dem Besitzer oder Erwerber gewähren. Dieser Nutzen hängt von dem Werthe der besessenen oder erworbenen Sache und dieser Werth von der Grösse des Einkommens oder des von dem Eigener diesem Einkommen vorgezogenen Genusses ab.” v. Hock, “Die öffentlichen Abgaben und Schulden” (1863), 16.

von Hock, there should be three fundamental taxes—a personal tax equal for all, a proportional property or income tax, and a series of special payments for special services. But the income tax must be assessed only on the surplus over the minimum of existence. Von Hock maintains that this is not the same thing as taxing only the clear income, for clear income might be so defined as to cause a tax to be simply a premium on extravagance. He desires an exemption of a fixed sum, and proportional taxation on the surplus.<sup>1</sup> Von Hock therefore combines the cost-of-service and value-of-service theories, and is more logical than Thiers, in seeing that they do not lead to the same results.

Finally, other countries may be passed over with a bare mention, as the advocates of the benefit theory here simply follow their French or German prototypes. In Italy, already in the eighteenth century, Compagnoni wrote a special work on progressive taxation, and maintained that the system was essentially unjust because taxation is simply a payment for protection, and because no one could prove that protection increased faster than property.<sup>2</sup> And during the present century a number of writers for a long time took the same ground, the most noted of recent authors being Boccardo, who simply

<sup>1</sup>“Wollte man aber stets nur das wirklich freie Einkommen d. i. bloss den Ueberschuss besteuern der nach Befriedigung aller Gelüste und Launen des Eigners als Ersparniss am Schluss des Jahres übrig bleibt, so besteuert man eigentlich nichts als die Sparsamkeit, gewährt der Verschwendung eine Prämie und verliert, da selten ein solches Ersparniss handgreiflich nachgewiesen werden kann, das ganze Steuer-objekt aus den Händen.” *Ibid.*, 76.

<sup>2</sup>G. Compagnoni, “*La Tassa progressiva*” (1797), 5, 8. Cf. also Ricco-Salerno, “*Storia della Dottrine Finanziarie in Italia*” (1881), 171.



follows Leroy-Beaulieu. But he displays a remarkable ignorance of recent literature in saying that "scientifically the question is decided, and decided against progression."<sup>1</sup> In Spain also, Pastor, the chief of the earlier writers on finance, takes the position that taxes must be proportional, because they should be proportioned to the benefits that each citizen derives.<sup>2</sup>

## HISTORICAL APPENDIX II.

### THE BENEFIT THEORY LEADS TO NON-PROPORTIONAL TAXATION.

In the preceding appendix we passed in review most of the advocates of the give-and-take theory of taxation. And we saw that they drew from this theory the conclusion of proportional taxation. There are, however, many writers who stoutly uphold the benefit theory, but who, on the contrary, do not confess that they need on that account to defend proportional taxation. The writers in this class really belong to several categories. But they may be all classed together, in so far as they profess to see the weakness of strictly proportional taxation as an outcome of the benefit theory. Some simply object to proportional taxation without laying down any positive programme ; some modify the propor-

<sup>1</sup>"Scientificamente la questione della base dell' imposta è decisa ed è decisa contra la progressività. Giustizia in materia di tributi non è che sinonimo di proporzionalità, fuori della quale non è che l'arbitrio, vale a dire precisamente l'opposto della giustizia." Boccardo, "Principii della Scienza e dell' Arte delle Finanze" (1884), xxvii.

<sup>2</sup>Pastor, "La Ciencia de la Contribucion" (1856), vol. i.

tional theory by positing the doctrine of exemption of the minimum of subsistence ; some go so far as to demand progressive taxation outright.

One of the most remarkable advocates of the give-and-take theory, who at the same time opposes the proportional tax on property or income, is Gandillot. But although he rejects the proportional property or income tax, he equally rejects the progressive tax.

Gandillot bases his idea of taxation not on the advantages received by the individual, but on the cost of service to the state. He objects to the theory of advantages, because he says it is impossible to measure the advantages to each. He professes to find a safer guide in the cost-of-service theory. Taxes must be the exact return for particular services. But these services are proportional neither to property nor to income. They are not proportional to property in the first place because many public services do not interest all the property owners at all; secondly, because even if they affect all owners they do not affect them in any proportion to their possessions, since pieces of property of the same value may often require unequal expenses for protection.<sup>1</sup> And taxes cannot be proportional to income, for those who purchase some gratification or protection or any object at all must pay for it in proportion to the value of the service, not in proportion to their income. An

<sup>1</sup>“De toutes les règles en matières fiscales, la plus juste est celle qui exige que l'impôt soit toujours l'exacte rémunération d'un travail ou d'un objet fourni.” Gandillot, “Principes de la Science des Finances” (n. d., about 1874), i, 218. “L'impôt n'est que le prix de service de protection, de production ou d'amélioration, analogue aux travaux divers dont les frais déterminent la valeur réelle des choses.” *Ibid.*, 225. “Chaque membre de la nation ne doit payer que ce qu'il reçoit.” *Ibid.*, 142.

<sup>2</sup>*Ibid.*, 146.

innkeeper regulates his charges not in accordance with the personal resources of his guests, but according to the value of the food, lodging and accommodations furnished. But the state is like the innkeeper.<sup>1</sup> Taxes proportional to property or income are hence unjust. They tend to throw on some the debts of others.<sup>2</sup>

It is true indeed that in Gandillot's opinion progressive taxes are not much better. It is not so much the proportion or progression which is at fault, as the basing of the tax on property, or income, or faculty. The only logical method, concludes Gandillot, is to develop a system of taxation where each element shall exactly represent the cost of the particular service to the individual. But he does not show us how this is to be done. The point to which we have desired to call attention is the fact that one of the strongest advocates of the give-and-take theory holds that it cannot logically lead to proportional taxation. It is here that we see the difference between Sargant in England and Gandillot in France; and of the two, the latter is the more logical.

A far larger number of writers object to strictly proportional taxation, sometimes without knowing it, when they demand the exemption of a minimum of subsistence. For if a certain amount of property

<sup>1</sup>"L'impôt, en effet, n'est-il pas le prix d'un bénéfice obtenu de l'Etat; et ceux qui achètent une jouissance, une protection, un bon office, un objet quelconque, ne doivent-ils point payer cet objet au prorata de leur lots respectifs, sans égard à leurs revenus?" *Ibid.*, 171.

<sup>2</sup>"L'impôt proportionnel aux fortunes, et l'impôt proportionnel aux revenus, tous deux, par une manifeste injustice, tendent également à rejeter sur les uns la dette des autres." *Ibid.*, 172.

or of income is entirely exempted the tax is certainly not proportional on the whole property or income. It may be proportional on the surplus above a certain amount. But it is then virtually degressive taxation on the whole.

The founder of the minimum-of-subsistence theory has usually been said to be Jeremy Bentham, although his words have never been quoted, so far as we have noticed. Bentham was a great advocate of what he called the do-nothing or be-quiet theory in politics, and held logically to the give-and-take theory of taxation. But he maintained that it is wrong, as it is practically impossible, to tax persons on what they need for necessities of life. Never tax a person when he has not the wherewithal to pay. "The individual being unable to pay the tax on account of his indigence, finds himself subject to grave evils. Instead of the inconveniences of the tax, the sufferings of privation are experienced; for this reason a capitation tax is bad; because a man has a head, it does not follow that he has anything else." And Bentham objects to taxes on the necessities of life, because they may be followed by physical privations, diseases, and even death itself; and no one perceives the cause. All these he calls "misseated" taxes, because they spare the rich to the prejudice of the poor.<sup>1</sup>

Several decades before Bentham, however, the same departure from proportional taxation had been advocated in much more precise language by French, English and German economists. Thus, for instance, Forbonnais took a very strong position. "The

<sup>1</sup>Bentham, "Principles of the Civil Code," chap. xv. In "Collected Works" by Bowring (1843), i, 319.

object of taxation," says Forbonnais, "is the preservation of property; and property is *nil* if it does not afford subsistence. Hence, the physical subsistence of every family is a privileged part of all income. Only the surplus above this minimum can be assigned to the public for the support of government."<sup>1</sup>

In England the first important writer to enounce this principle was Sir James Steuart. "According to equity and justice all impositions whatsoever ought to fall equally and proportionally on every one according to his superfluity." Steuart goes on to explain that this means the income that remains to him after the necessary expenses of subsistence. "Whatever a people consumes beyond the necessary I consider as a superfluity which may be laid under taxation." And Steuart continually recurs to the position that "nothing can be the object of taxation except what is over and above the physical necessary of every one." The "physical necessaries" is one of his favorite phrases.<sup>2</sup>

In the famous debate which resulted in England's first income tax, Lord Auckland upheld the theory of the exemption of a minimum of subsistence—£60—and

<sup>1</sup>"Le service public a pour objet la conservation des propriétés; et la propriété est nulle si elle ne donne la subsistance; d'où il s'ensuit que la subsistance physique de chaque famille est une portion privilégiée sur le revenu avant le service public." . . . "L'excédant de cette subsistance physique est donc la seule portion du revenu sur laquelle le service public puisse être assigné. Ainsi le revenu national, soumis aux combinaisons de finance, n'est que le montant du superflu de chaque citoyen." Forbonnais, "Principes Economiques" (1758), § 5; in Guillaumin's edition of "Mélanges d'Economie Politique," i, (1847), 204.

<sup>2</sup>Steuart, "Political Economy" (1767), book v, chap. xii. In his "Works," vol. iv., 298, 314, 317, etc.

of the gradual rise of the rate up to £200 for the same reasons. But he objected to progressive taxation beyond this "because of the implied inference, that because a man possesses much, therefore more shall be taken from him than is proportionably taken from others."<sup>1</sup> Some of the earlier German writers took the same ground. Thus Sonnenfels in his widely read work on public finance based his theory of proportion on the fact that governmental protection was proportional to property. But he demanded the exemption of the minimum of subsistence, which he calls "the sacred portion of mankind."<sup>2</sup> Sonnenfels even goes farther and demands the exemption in each case of a variable sum according to the standard of life; for he sees that there is no absolutely fixed minimum of subsistence. And this system he calls the taxation of free income, based on the standard of comfort.<sup>3</sup>

Bentham is thus not the founder of the theory of the exemption of the minimum of subsistence.<sup>4</sup> The chief advocates, however, of the degressive theory (in the sense of proportional taxation above a certain exempted minimum) as an outcome of the give-

<sup>1</sup>"The Substance of a Speech made by Lord Auckland in the House of Peers on the Bill for granting certain Duties upon Income" (1799), 25. That Lord Auckland was a believer in the give-and-take theory clearly appears from his discussion of the income tax as "a fair price for (its) protection." *Ibid.*, 27.

<sup>2</sup>"Dieser geheiligte Antheil der Menschheit." Sonnenfels, "Grundsätze der Polizei, Handlung und Finanz" (1765), iii, § 94. See especially 5th ed. (1787), 192-194.

<sup>3</sup>"Besteuerung des reinen Einkommens" and "standesmässiger Unterhalt" are his words. *Ibid.*, § 102. iii, 214-216.

<sup>4</sup>This error, so often repeated, is probably due to John Stuart Mill who refers only to Bentham in connection with the doctrine. Even recent writers like Cohn, "Finanzwissenschaft" (1889), § 221 repeat the mistake.

and-take theory are found among the German writers of the first half of this century. They elaborated what is known as the clear-income theory of taxation (*Freieinkommens-theorie*), which, as we have seen,<sup>1</sup> rests practically on the Ricardian view of income.

Among the earliest advocates of the clear-income theory resting on the benefit principle was Behr. Behr thinks it "undeniable that the real basis as well as the measure of the duty to pay taxes is to be found in the participation in the protection, and in the enjoyment of the insurance institutions of the State," and that any tax the extent of which is not regulated by this condition sins against the cardinal doctrine of justice.<sup>2</sup> He deduces from this the necessity of a tax proportional to what he calls "clear produce of property."<sup>3</sup>

The clear-produce idea was soon more sharply formulated. Thus Jakob holds that it is just that everyone should pay the State for the advantages he receives or for the expenses that he occasions, and that this denotes taxation proportional to clear income. But by clear income he means the exemption of necessary expenses.<sup>4</sup> On the other

<sup>1</sup>Above, p. 80.

<sup>2</sup>"Es ist nicht zu läugnen dass dieser wahre Grund der Steuerpflicht bestehe in der Theilnahme am Schutz, im Genusse der Garantie-Anstalten des Staats; dass das Mass der Steuerpflicht eines Jeden coincidiren müsse mit dem Umfange jener seiner Theilnahme, dieses seines Genusses," etc. Behr, "Die Lehre von der Wirthschaft des Staats, oder pragmatische Theorie der Finanzgesetzgebung" (1822), 92-93.

<sup>3</sup>"Der reine Vermögens-Ertrag ist der eigentliche Messer der Theilnahme am Schutz und an den Garantie-Anstalten des Staats, indem sich in ihnen nur die Realität und das Product dieser Theilnahme ausspricht." *Ibid.*, 96.

<sup>4</sup>"Es ist der Gerechtigkeit gemäss dass derjenige die Kosten einer Thätigkeit oder Anstalt trage, der davon zu seinem Vortheile Ge-

hand Lotz is not quite clear about the principle. The first rule, which he says is the legal principle, is to apportion taxes according to the extent of participation in the benefits of the civil life. But this is often modified by the second rule, or the economic principle, that men should be taxed according to their income.<sup>1</sup> Lotz thus differs from the others in seeming to set the income principle over against the benefit principle. But he goes on to define the taxable income as the surplus product above expenses, calculated according to the individual circumstances. And he objects to those who want to take the total income as the standard.<sup>2</sup> So a few years later Fulda demands proportional taxation of clear income, which he defines as the "surplus over the family expenses necessary to subsistence, and over what is needful to keep up one's capital at the original figure."<sup>3</sup> Malchus, who at times seems to hesitate  
brauch macht, oder durch sein Verhalten zu ihrer Ausübung oder Errichtung Veranlassung giebt." He concludes that taxation must be "nach dem Massstabe des reinen Einkommens." Jakob, "Die Staatsfinanzwissenschaft" (1821), 171, 202, 1014; pp. 112, 123 and 608 of second ed. (1837.)

<sup>1</sup>"Nach den Gesetzen des Rechts möchte es das Kürzeste sein den öffentlichen Bedarf auf jeden einzelnen Abgabepflichtigen nach den Verhältnissen zu vertheilen, in welchen er an den Vortheilen des bürgerlichen Lebens Antheil nimmt." J. F. E. Lotz. "Handbuch des Staatswirthschaftslehre" (1822), § 131. See also 2d ed. (1837), iii, p. 179.

<sup>2</sup>"Der einzige, wahre, richtige und brauchbare Massstab . . . ist . . . das reine Einkommen, dass jeder Abgabepflichtige aus seiner Betriebsamkeit als Ueberschuss des dabei gehabten Guteraufwands nach seinen individuellen Verhältnissen zieht, oder mit anderen Worten sein individuelles reines Einkommen." *Ibid.*, iii, 187.

<sup>3</sup>"Der Ueberschuss über die Bedürfnisse seiner eigenen und seiner Familie absolut nothwendigen Unterhaltes und über die nothwendigen Erfordernisse, die die jährliche Unterhaltung seines bereits erworbenen stehenden und umlaufenden Kapitals fordert." Fulda, "Handbuch der Finanzwissenschaft" (1827), §140, p. 151.



somewhat about the bases of taxation, yet concludes that equality and universality of taxation depend on the fact that every one gets an equal protection from the State.<sup>1</sup> Therefore, he thinks every one should be taxed in proportion to his clear income.<sup>2</sup> Murhard, who gives a good review of the opinions of his predecessors, and who in some places also seems to vacillate between the two theories,<sup>3</sup> finally comes out as a decided opponent of progressive taxation, on the express ground of McCulloch that the only just theory is the leave-them-as-you-find-them theory, which to him means proportional taxation.<sup>4</sup> But he qualifies this later by showing that taxes must be proportional only to clear income, according to the views of Behr and his successors.<sup>5</sup> Finally one of the latest writers to accept this theory was Biersack. Biersack indeed thinks that the ideal standard of taxation is the relative measure of advantages that accrue to the individual.<sup>6</sup> This he finds in the proportional clear income. But unlike some of his

<sup>1</sup>They depend "auf den gleichen Schutz für Erstrebung seiner individuellen Zwecke, und auf den gleichen Antheil an dem Genuss der Staatsanstalten." Malchus, "Handbuch der Finanzwissenschaft" (1830), i, 152.

<sup>2</sup>"Die Grösse des Beitrags muss mit der Grösse dieses disponiblen reinen Einkommens möglichst proportionirt werden." *Ibid.*, i, 158.

<sup>3</sup>Murhard, "Theorie und Politik der Besteuerung" (1834), 24, 80.

<sup>4</sup>Murhard quotes the *Edinburgh Review* article of 1833 (without knowing that it was written by McCulloch), and makes that the basis of his argument. *Ibid.*, 540-553. Meyer, "Principien der gerechten Besteuerung" (1884), 41, is therefore wrong in asserting that Murhard is the originator of this doctrine. Cf. above p. 96.

<sup>5</sup>Murhard, *ibid.*, 447-463.

<sup>6</sup>"Das Verhältniss in welchem die Einzelnen an den vom Staate gewährten Vortheilen participiren." Biersack, "Ueber Besteuerung," (1856).

predecessors he restricts the "necessary" income to what is absolutely necessary for the individual, not for his family, etc.<sup>1</sup>

Other more recent writers, who know nothing of the clear-income theory, yet advocate degressive taxation, not on theoretical grounds, but simply for practical reasons. Among modern French writers on public finance Chailley is one of the most noted. He distinguishes himself from most of his countrymen in that he advocates an income tax, as a compensatory tax, "*impôt de redressement*." But like most of the French writers he still follows the give-and-take theory of taxation.<sup>2</sup> Curiously enough, however, he favors what is known as the "discriminating" theory in the income tax, *i. e.*, a differentiation in the rate according to the source of income. But he opposes progressive taxation for the same reason as Leroy-Beaulieu. Yet, again illogically, he favors the exemption of the minimum of subsistence, "because the poor cannot pay it."<sup>3</sup> And he thus declares himself a partisan of the degressive principle.<sup>4</sup>

Some of these writers are brave enough to confess that they are not logical. So the Italian publicist Benvenuti, who also clings to the give-and-take theory and objects to progressive taxation, confesses that the advocates of the exemption of the minimum of subsistence are not logical.<sup>5</sup> But he avers that

<sup>1</sup>Biersack, "Ueber Besteuerung" (1856), 40.

<sup>2</sup>Chailley, "L' Impôt sur le Revenu" (1884), 408.

<sup>3</sup>"Il s'agit seulement de ne pas exiger d'un revenu minime ce qu'il ne peut pas payer." *Ibid.*, 420.

<sup>4</sup>"Ce serait l'impôt dégressif." *Ibid.*, 423.

<sup>5</sup>"Sì, è vero, i fautori dell' imposta proporzionale, ammettando il minimum, non sono coerenti al loro principio. Un professore di

"logic must be tempered with equity"—and hence concludes that the exemption is an "incontestable necessity." We might feel tempted to retort with his own answer to Pescatore: "How can one deny that what is necessary is just?"<sup>1</sup> It is a poor argument which defends degressive taxation, even though illogical, because it is just; and which opposes progressive taxation on the ground that it is unjust, although the same reasons of justice lie avowedly at the basis of each. When we abandon logic, controversy is at an end.

The gradual development of theory from degressive to progressive taxation is seen in Sismondi. Sismondi holds firmly to the give-and-take theory, and maintains that on this account the minimum of subsistence must be exempted. "Taxation being the price paid by the citizen for his enjoyments, we must never demand a tax when there are no enjoyments."<sup>2</sup> And in an eloquent plea he points out the danger of infringing on this minimum<sup>3</sup>—an argument which *logica dovrebbe sgridarneli.*" Benvenuti, "Le Imposte, Teoria e Pratica" (1869), 90.

<sup>1</sup>"Poichè come negare che sia giusto ciò che é necessario." *Ibid.*, 77.

<sup>2</sup>L'impôt étant le prix que le citoyen paie pour ses jouissances, on ne saurait le demander à celui qui ne jouit de rien; il ne doit donc jamais atteindre la partie du revenu qui est nécessaire à la vie du contribuable." Simonde de Sismondi, "Nouveaux Principes d'Economie Politique" (1819), book vi, chap. ii. I quote from the 2nd ed. (1817), vol. ii, 170.

<sup>3</sup>"Il y a dans le salaire une partie nécessaire qui doit conserver la vie, la force et la santé de ceux qui le perçoivent, afin que la travail se continue, afin que la salaire qui pour eux est un revenu, mais qui est un capital pour ceux qui payent, puisse rendre à ces derniers les fruits qu'ils en attendent, et continuer, d'année en année, à imprimer le mouvement à la machine sociale. Malheur au gouvernement qui touche à cette partie; il sacrifie, tout ensemble, et des victimes humaines et l'espérance de ses futures richesses." *Ibid.*, 168.

holds good of course only on the assumption that the tax is not shifted. But Sismondi goes further. Most of the public expenses are destined to protect the rich against the poor; hence it is just "that the rich contribute, not only in proportion to their wealth, but something in addition, in order to maintain this order which is so advantageous to them."<sup>1</sup> Sismondi shows how this may be done, and although he thinks that we may admit the principle of proportion "with these slight modifications,"<sup>2</sup> it is apparent that the "slight modifications" in reality constitute a system not of proportional, but of progressive taxation. Sismondi, thus almost against his will, gives up the theory of proportional taxation.

Finally, we have a class of writers who deduce from the give-and-take doctrine the theory of progressive taxation in its entirety. The earliest advocate of this tendency is the celebrated Condorcet. Condorcet starts out with maintaining the necessity of exempting the minimum of subsistence. A proportional tax on the income exceeding a given sum is a progressive tax on the whole income; and this is absolutely in accordance with the principles of the most rigorous justice.<sup>3</sup> (In reality it is degressive

<sup>1</sup>"La plus grande partie des frais de l'établissement social est destinée à défendre le riche contre le pauvre; parceque, si on les laissait à leurs forces respectives, le premier ne tarderait pas à être dépourvu. Il est donc juste que le riche contribue, non-seulement en proportion de sa fortune, mais par delà même cette proportion, à soutenir un ordre qui lui est aussi avantageux." *Ibid.*, 155.

<sup>2</sup>"Avec ces légères modifications, on peut donc admettre la règle générale que chacun doit contribuer au maintien de la société en proportion de son revenu." *Ibid.*, 157.

<sup>3</sup>"La partie de ce revenu, nécessaire à la subsistance de la famille, ne peut être imposée . . . C'est donc sur l'excédant seul que

taxation on the whole; but scientific terminology was not yet well developed in his day). We must go further, however, says Condorcet. There are some public expenses which have a special value to the rich, without losing their value common to all. In fact, you can never really encourage the useful arts without producing a perfection which will be of especial benefit to the wealthy. Hence, the rich ought to pay an additional sum because of certain exclusive benefits that accrue to them from governmental activity. This is the second sense in which progressive taxation is just.<sup>1</sup> Condorcet goes on to point out some limitations on the rate of graduation. But in principle, he favors progression because of his belief in the greater benefits to the wealthy.

The chief modern advocate of progressive taxation as the outcome of the give-and-take theory is Joseph Garnier. Garnier makes a distinction between the progressive tax and what he calls the progressional

*l'impôt doit être placé. . . . Voilà donc un impôt proportionnel sur la portion du revenu excédant 400 livres, mais progressif sur le revenu entier et cette distribution est absolument conforme aux principes de la plus rigoureuse justice.*" Condorcet, "Sur l'Impôt Progressif" (1792), in Guillaumin's edition of "Mélanges d'Economie Politique," i (1847), 567.

<sup>1</sup>"Or il existe des dépenses dont l'utilité n'est au dessus des privations occasionnées par l'impôt que pour ceux auxquels il n'ôte qu'un véritable superflu. . . . Ensuite la même dépense ne peut-elle avoir pour le riche une utilité dont il profite seul, sans qu'il ne perde rien de l'utilité commune à tous? . . . Il serait donc très juste de dire: tous les revenus sont proportionnellement imposés; mais, au-dessus d'un certain terme, l'excédant paiera proportionnellement une autre contribution. . . . Celle-ci sera destinée à faire payer par les riches certains avantages exclusifs qu'ils retirent de dépenses, faites à la vérité pour l'utilité générale, mais dont il résulte nécessairement des jouissances qui ne peuvent être que pour eux seuls. Voilà encore un second sens dans lequel l'impôt progressif est conforme à la justice." *Ibid.*, 568-569.

tax. In the former case the progression is rapid and unlimited, and the tax is therefore absurd, because it is simply a means of spoliation. In the latter case, that of the "rational and serious progressive tax," the progression increases very slowly and stops at a moderate maximum, so that it can never exceed a definite and limited portion of the income. That is what he calls the progressional tax, or the rational progressive tax. And while he hotly opposes the first, Garnier strongly upholds the second, and objects to most of the French writers for confounding the two. But in reality, notwithstanding Garnier's explanations, there is no difference in principle. They are both progressive taxes.

The real basis of Garnier's defense of the progressive tax, in the sense of a moderate progression, is that the protection afforded by the state increases faster than the increase of property. This he looks upon as a self-evident fact, and is content with simply positing it as an axiom. Since protection increases more than proportionally to property, taxation must increase progressively. That is the true, legitimate, really rational, ideal tax.<sup>1</sup> It is true,

<sup>1</sup>"L'impôt idéal vraiment légitime, vraiment rationnel est celui qui équivaut exactement aux avantages que le contribuable retire de la société et surtout à la valeur de la sécurité qui lui est garantie. Or la question est de savoir si ceux qui ont de forts revenus et une belle situation dans la société ne sont pas protégés plus que *proportionnellement* à leur fortune. Si l'on trouvait que les citoyens plus aisés sont protégés progressivement, c'est à dire que la protection qu'ils reçoivent est plus que proportionnelle à leur avoir physique et morale, ils devraient contribuer plus que proportionnellement; alors la légitimité de l'impôt progressif ne saurait être combattue, et la difficulté ne serait plus que dans les moyens d'application. Dans ce cas, toutes les réformes financières devraient tendre à établir une proportion progressive, si je puis dire, plus juste et plus équitable que l'égalité de l'impôt qui n'est la plupart du temps qu'une

indeed, that Garnier refers later on to the possibility of basing the principle of progression on some other reason, when he asks "In case of public expenses for other purposes than for security, is it not legitimate for the rich to pay more than the poor?"<sup>1</sup> But he does not attempt to develop this idea. So that his whole contention may be said to rest on the principle of protection.

In Germany several writers have maintained that the give-and-take theory leads to progressive taxation, which they uphold on that account. In one of his earlier works Eisenhart asserts that "the benefits which individuals do or can derive from governmental institutions increase in geometrical progression."<sup>2</sup> So Judeich thinks that the state offers a great many advantages which may theoretically be enjoyed by all, but most of which are practically enjoyed only by the wealthier classes. Hence to tax every one in a strict proportion would be unjust.<sup>3</sup>

monstrueuse inégalité; encore plus juste et plus équitable que la simple proportion (souvent disproportionnelle en fait)." Jos. Garnier, "*Traité des Finances*," 4th ed. (1883) 69. *Cf.* first edition (1858), 25. The idea is found already in his "*Eléments d'Economie Politique*," 1st ed. (1846).

<sup>1</sup>"Quand il s'agit de dépenses publiques autres que celles de la sécurité, quand il s'agit de dépenses de luxe, d'agrément, etc., ne semble-t-il pas légitime que le riche et l'aisé payent plus largement que le pauvre, que le citadin paye plus que le campagnard." *Ibid.*

<sup>2</sup>"Denn der Vortheil, welchen ein Jeder von den öffentlichen Anstalten hat oder haben kann nimmt nicht bloss einfach mit seinem Einkommen zu, sondern steigt in zusammengesetzten Sätzen, in geometrischer Progression." Eisenhart, "*Philosophie des Staates*," ii (1844), 197. Later on, it is true, in his special work on taxation he formally abandons the give-and-take theory completely. Eisenhart, "*Kunst der Besteuerung*" (1868), 5-9.

<sup>3</sup>"Der Staat bietet eine Menge Vortheile, welche zwar von allen Unterthanen benutzt werden dürfen, die aber nur von den Wohl-

The most remarkable attempt to prove that the give-and-take principle leads logically to progressive taxation was made by the French engineer Fauveau, in a work where the mathematical method is applied to taxation. Fauveau discusses four possible bases of taxation, namely that taxes should be based on the hypothesis: (1) that every one owes to society what he gains from the social protection; (2) that every one owes to society what it costs society to protect him; (3) that every one ought to receive from the social protection an equal moral advantage; (4) that society ought to impose on every one an equal moral sacrifice.<sup>1</sup> Here we are concerned with the first two hypotheses only. The others we shall take up later.<sup>2</sup>

Fauveau objects to the assertions of Thiers and Molinari that the insurance theory leads to proportion. Insurance companies, says he, fix the premiums not alone in proportion to the amount of property insured, but according to the risks; so that the same amount of property may often pay different rates of insurance. Now 100,000 francs of property which belong to one man would (if there were no social protection) stand a much greater chance of being pillaged than the same amount belonging to several individuals. The premium of insurance would have to be made up of all the infinitely small premiums for insuring each particular element of the large

habenden benutzt werden können. Es wäre ungerecht, den weniger Bemittelten im gleichem Verhältnisse zu besteuern, da er nicht im Stande ist, im gleichen Verhältnisse die Einrichtungen des Staates zu gebrauchen." Judeich, "Die Rentensteuer im Königreiche Sachsen dargestellt" (1857), 111-112.

<sup>1</sup>G. Fauveau, "Considérations Mathématiques sur la Théorie de l'Impôt" (1864), 12.

<sup>2</sup>Below, p. 163.



property; for one runs the risk of losing not only the whole of the property but all the amounts inferior to the whole.<sup>1</sup> And after a lengthy computation, bristling with mathematical formulas, Fauveau concludes that taxation regarded as an insurance premium must increase more rapidly than the value of the property insured, but less rapidly than the square of the value.<sup>2</sup> In other words the insurance theory of taxation leads to progression.

On the other hand if we desire to proportion taxation to the cost of benefits received, Fauveau thinks it impossible to settle on any definite rate at all. The cost of punishing attacks made on security of property grows less rapidly than the value of the property; but the cost of preventing possible attacks is progressive, just as are the insurance premiums. He maintains, however, that in this case it is impossible to lay down any mathematical proportion.<sup>3</sup> These arguments, as we have already seen, are not very convincing.<sup>4</sup> But it is interesting to note how the defenders of the benefit theory themselves, by a gradual evolution, come to advocate progressive taxation.

Let us now leave this whole school and investigate the arguments of those who propound, on the contrary, what is known as the faculty theory of taxation.

<sup>1</sup>"C'est que chaque individu doit, pour être assuré de la possession de son bien, une somme qui se compose de toutes les primes infiniment petites dues pour se faire assurer chacun des éléments de ce bien, car on court risque d'être volé non seulement de la totalité de son bien, mais de toutes les sommes inférieures à cette totalité." Fauveau, *op. cit.*, 24.

<sup>2</sup>"L'analyse mathématique prouve que l'impôt doit croître plus rapidement que la valeur des biens assurés, mais moins rapidement que la carré de la valeur de ces biens." *Ibid.*, 26.

<sup>3</sup>*Ibid.*, § 32.

<sup>4</sup>See above, pp. 83-85.

## CHAPTER III.

### THE FACULTY THEORY.

The faculty theory of taxation is very old. That a man should contribute to the public burdens in proportion to his ability or faculty is a principle that dates back to the middle ages, both in theoretical literature and in practical legislation, and may even be found in its main outlines in the writings of the Greek philosophers. The word "faculty" is the usual one in Latin and French tax laws and is the general term employed in all the early American laws, so that "faculty" seems to be a peculiarly appropriate term to use in American discussions. For a long time, however, the best practical test of faculty was supposed to be general property. Thus all through the middle ages when local taxes were levied at all, they were assessed on general property on the principle *juxta bonorum facultatem* or *pro bonorum facultate*.<sup>1</sup>

In England the word ability is first used in a general statute in the Elizabethan poor law, which provides for the taxation of every inhabitant of the parish "according to the ability of the parish"—a term interpreted to mean *property*.<sup>2</sup> It had been so

<sup>1</sup>*Cf.* my article on "The General Property Tax," in *Political Science Quarterly*, v, 48.

<sup>2</sup>Stat. 43 Eliz., chap. 2, sec. 1. For the gradual change in the interpretation of the word see the volume entitled, "The Local Taxes of the United Kingdom, published under the direction of the Poor Law Commissioners" (1846), 8 *et seq.*

common to identify faculty with property that when the words ability or faculty were first used in American colonial legislation they were held to be tantamount to property.<sup>1</sup>

Later on; the interpretation of "faculty" was somewhat altered. From meaning property, it now began to denote revenue or income. But it was still interpreted to imply a proportional tax,—proportional now no longer to property, but to income. We see this idea carried out in practical legislation. Thus, not to speak of the mediæval town taxes in Europe, we find in the tax laws of the American colonies toward the middle of the eighteenth century the word "faculty" used to designate the "returns and gains" as over against the "visible estates" or property; and the tax was expressly called the "faculty tax" or the "assessment on the faculty." So again during the French Revolution the principle was repeatedly laid down that taxation should be according to faculty, or according to estates and faculties,—faculty being presumed to stand for revenue as over against the property.<sup>3</sup> But

<sup>1</sup>See my article on "The General Property Tax," 57.

<sup>2</sup>See the laws of Massachusetts Bay (1646), Plymouth (1643), Connecticut (1650), New Haven (1649) and Rhode Island in the article on "The General Property Tax," just quoted, p. 58.

<sup>3</sup>"La contribution commune doit être également répartie entre tous les citoyens en raison de leur facultés." "Déclaration des Droits de l'Homme et du Citoyen." 26 Août—3 Novembre, 1789, § 13. Repeated word for word in the Constitution of 1791, § 13. "Toutes les contributions et charges publiques seront supportées proportionnellement par tous les citoyens et par tous les propriétaires à raison de leurs biens et facultés." Acte constitutionnel sur les Impôts de 12 Oct.—6 Nov. 1789, § 1. "Les contributions seront réparties entres tous les contribuables à raison de leurs facultés." Constitution du 5 Fructidor, An III (1795), § 306. The work of Hélie, "Les Constitutions de la France" (1880), contains all the clauses referred to. See pp. 32, 53, 269 and 461.

in all cases, with only one exception to be noticed below,<sup>1</sup> the faculty tax was held to mean a proportional, not a progressive tax. And later on, in the French constitutions of 1814 and 1830, the term faculty tax seems to be used in the sense of a proportional tax on property.<sup>2</sup> But it was not so understood by the legislature, which continued the revolutionary system of taxation according to revenue; and in the constitution of 1848 the old words "faculty and fortune" are again used to designate the proportional tax.<sup>3</sup>

The idea that faculty or ability is measured by income obtained a firm foothold in theory through the celebrated maxim of Adam Smith that "the subjects of every state ought to contribute . . . as nearly as possible in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy," etc. And for some time the theorists regarded the proportional income tax as the ideal, which ought to be substituted for the whole existing system of taxation.

It was not long, however, before a slightly different interpretation was put on faculty. Income was still regarded as the test of faculty, but the definition of income was altered, or rather only a portion, not the whole, of the income was henceforth regarded as the standard of ability.<sup>4</sup> Only that part of income

<sup>1</sup>See the law of 1793, p. 136 of this monograph.

<sup>2</sup>"Les Français contribuent indistinctement, dans la proportion de leur fortune, aux charges de l'Etat." Charte Constitutionnelle du 4 Juin, 1814, § 2. Repeated in the Charte Constitutionnelle du 7 Août, 1830, § 2. In Hélie, *op. cit.*, 886, 988.

<sup>3</sup>"Chacun contribue à l'impôt en proportion de ses facultés et de sa fortune." Constitution du 4 Nov. 1848, § 15. In Hélie, 1104.

<sup>4</sup>A curious and little known interpretation of the term "ability" is found in the eighteenth century in the administration of the

which exceeded what was necessary for existence was declared taxable. The idea, we know, had already been developed by the advocates of the give-and-take theory of taxation, like Steuart, Bentham, Forbonnais and a whole host of German writers in the first half of this century. But the clear-income theory, as it is called, was adopted also by the advocates of the faculty principle. That is to say, taxation as demanded by the faculty principle should be proportional indeed, but proportional only to that part of income which exceeded a definite sum. The minimum of subsistence should be exempted. It is readily seen that the resulting tax would not be strictly proportional, but graduated as to the whole income, although it would be proportional to a certain excess of income.

The entering wedge, which thus began to modify the conception of faculty, was soon pushed further in. The original idea, as we have seen, was that of production. Whether the product was taken as it came in in the shape of income, or as it permanently remained in the shape of property, is immaterial in so far as this point is concerned. Both property and income, as tests of faculty, had regard to conditions of production. But as soon as a demand was made for the exemption of the minimum of subsistence, a new factor was introduced,—namely, the conditions of consumption. What the individual received or produced in the way of income was no longer the

English local poor rate. The “ability” of the taxpayer was normally to be found in the actual rent of his property, but the court held that some regard should be paid *ad statum et facultates* and interpreted this to mean the number of the family. *Cf.* the case in 1 Bott. 119. It has already been pointed out that the English income tax later on made abatements according to the size of the family.

only consideration; the ability to apply this product to the satisfaction of his necessary wants became an equally cogent factor.

But it was only a step to enlarge the conception of consumption. Not alone the satisfaction of necessary wants, but the satisfaction of all wants, now became the watchword. Faculty was declared to consist not alone in power of production or extent of product, but also in the power to use the product to satisfy all one's wants. The conditions which limit faculty are to be found not only in the amount of the income, but in the demands that are made upon the individual in disposing of his income. In other words, the idea of burden, or of sacrifice, was introduced. Equality of pressure, or equality of sacrifice, now became a fundamental consideration; and faculty or capacity to pay taxes was henceforth declared to be measured by that proportion of his product or income, the loss of which would impose upon the individual an equal burden or sacrifice with his neighbor.

The doctrine of faculty as reinvigorated by the conception of sacrifice was thus made the starting point of a new scientific movement. Some writers, like the German Rau, declared the two ideas virtually synonymous. Some, like John Stuart Mill, let fall entirely the conception of faculty and maintained that the only test of just taxation was equality of sacrifice. Finally, other more modern authors have sought to combine the two ideas, maintaining that the conception of faculty can be really grasped only when interpreted in the light of equal sacrifice, or conditioned by it.

What, now, were the conclusions drawn from this doctrine of equal sacrifice,—a doctrine which, as we

shall see, is by no means so new as it has been generally assumed, and which is found in many of the writers who have almost universally been passed over in the history of the science of finance? The argument may be expressed as follows.

All individual wants vary in intensity, from the absolutely necessary wants of mere subsistence to the less pressing wants which can be satisfied by sheer luxuries. Taxes, in so far as they rob us of the means of satisfying our wants, impose a sacrifice on us. But the sacrifice involved in giving up a portion of what enables us to satisfy our necessary wants is very different from the sacrifice involved in giving up a portion of what enables us to satisfy our less urgent wants. If two men have one thousand dollars and one hundred thousand dollars income respectively, we impose upon them not equal, but very unequal sacrifices if we take away the same proportion, say ten per cent, from each. For the one thousand dollar individual now has only nine hundred dollars, and must deprive himself and his family of necessities of life; the one hundred thousand dollar individual has ninety thousand dollars, and if he retrenches at all in his expenditures, which is very doubtful, he will give up only great luxuries, which do not satisfy any pressing wants. The sacrifice imposed on the two individuals is not equal. We are imposing on the one thousand dollar man a far heavier sacrifice than on the one hundred thousand dollar man. In order to impose equal sacrifices we must tax the richer man not only absolutely, but relatively, more than the poor man. That is, the tax must be not proportional, but progressive; the rate must be lower in the one case than in the other.

And since our wants shade imperceptibly into each other, from absolute necessities, to comforts, to comparative luxuries, to extreme luxuries, logic would require the progression to be gradual.

This doctrine was soon assailed from several sides. Some, like Leroy-Beaulieu, opposed it simply because they denied the validity of the sacrifice theory as over against the benefit theory. But they may be passed over here, as they have already been discussed under the head of advocates of the benefit theory. Others, like Mill, asserted that the doctrine was "too disputable entirely," without clearly showing, however, in what way it could be disputed. For they still believed in the equality-of-sacrifice doctrine, although they did not desire to go beyond the exemption of the minimum of subsistence. Others again, among recent writers, have accepted the conclusion as to progressive taxation, but maintain that the premises should be slightly altered. Others, finally, have pointed out that the conclusion itself should be somewhat changed.

To take the last point first. If we accept the argument, so it was said, it follows that the rate of progression should continually increase until finally the whole income or property would be swallowed up by the tax. This is a most common objection and one of the favorite arguments with opponents of progressive taxation. It may be traced as far back as the last century. Jollivet, for example, called the progressive tax the vulture which consumes its own entrails.<sup>1</sup> In answer to this it was pointed

<sup>1</sup>"L'impôt progressif, en dernière analyss, c'est le vautour déchirant ses propres entrailles." J. B. M. Jollivet, "De l' Impôt Progressif, et du Morcellement des Patrimoines" (1793), 96.



out that the progressive rate would satisfy the demand of theory by applying only to the successive increments of property or income, so that the hundred per cent rate, even if it were ever reached, would never apply to the entire income, and therefore could never confiscate the whole. But more than this, many of the advocates of progressive taxation hold that the rate of progression ought itself to be degressive. This was deemed to follow logically from the argument above. For if the intensity of our wants differs very considerably with different objects, the loss of a given sum of money will affect the poor man and the rich man very unequally; because in the one case it trenches upon necessities, in the other case it does not. But in proportion as we approach the less necessary wants, the difference in intensity diminishes, until finally, when we deal with large deductions from large incomes, there is virtually no difference in the intensity of the wants because these amounts serve to satisfy wants for extreme luxuries, the loss of which will be of equally little importance. Therefore the rate of taxation should gradually increase up to a certain point, then decrease with the difference in the intensity of the wants, until finally when the point is reached beyond which the wants are of equally little importance, the rate should be the same. In other words taxation should be progressive, but the rate of progression should itself gradually decrease. Equality of sacrifice therefore leads to degressively progressive taxation.

We come, now, to those writers who accept the conclusion, but desire a change in the premises. For instance, some, like the recent Austrian econo-

mist, Meyer, while approving progressive taxation, think that the premises prove a little too much. If the doctrine of equal sacrifice is to be interpreted as meaning that the intensity of the wants which remain unsatisfied because of the tax must be equal, then the tax would have to take from the large income the whole difference between it and the smaller income, as only thus could equality of sacrifice in the sense indicated be attained. But this, they hold, would be rank communism. These writers, therefore, propose to measure the equality of the sacrifice in a different way,—not by the intensity of the wants that remain unsatisfied because of the tax, but by the degree in which the tax increases the intensity of the last wants that are actually satisfied. The stress is laid upon the satisfied, not the unsatisfied wants.

This objection however is of very little weight, because it ascribes an arbitrary meaning to the word “equal.” When economists speak of equal sacrifice they mean relatively proportional sacrifice. When we speak of equality of taxation, we certainly do not mean that the identically same amount should be taken from each one; for that would involve the grossest inequality. Where we say that taxes should be equal, we mean that the burden should be proportional. Whether the proportion should be a strict numerical or a relative proportion—that is, whether the rate should be the same or different—depends on the answer we give to certain fundamental questions. It is perfectly conceivable, for instance, that a truer proportion might be found through a so-called progressive tax, than through what is commonly called a proportional tax. That

was the view of Robespierre and the French Convention when it decreed progressive taxation in the following words: "In order to attain a more exact proportion in the division of public burdens which every citizen should support according to his faculties, a graduated and progressive tax shall be established on luxury and property, real as well as personal."<sup>1</sup> So in the same way, when we say that the sacrifice should be equal, we mean with John Stuart Mill, that "each person shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his." "Equal" sacrifice is thus merely a rough way of expressing the idea of "proportional" sacrifice. In assuming that "equal sacrifice" necessarily implies that "the intensity of the wants that remain unsatisfied because of the tax" must be equal, these objectors really confound equal sacrifice with arithmetical equality. All that is implied in the doctrine of equal sacrifice is that the pressure must be relatively proportional, not that it must be identically the same. It is the same mistake as to assume that equality of taxation means that every one—rich and poor—should pay precisely the same amount. The amount paid is identical or equal in one sense, and yet such taxation would be grossly unequal in the usual sense of the term "equal taxation." Equality as used in taxation does not mean sameness, but relative proportionality.

<sup>1</sup>"La Convention Nationale décrète comme principe que, pour atteindre à une proportion plus exacte dans la répartition des charges que chaque citoyen doit supporter en raison de ses facultés, il sera établi un impôt gradué et progressif sur le luxe et les richesses tant foncières que mobilières." Loi du 18 Mars, 1793. In Hélié, "Les Constitutions de la France" (1880), 359.

It makes no difference therefore whether we lay the stress on the satisfied or on the unsatisfied wants. The explanation is identical in either case. Granting the gradation in human wants, a tax which takes away the possibility of satisfying some wants changes the intensity of the last want actually satisfied, just as it in the same way changes the intensity of the next urgent want that remains unsatisfied. We are simply looking at the same fact from two different standpoints. The theory is not altered a whit. If the imposition of a tax makes me abandon my outlay for amusements in order to be able to purchase clothing, the intensity of my last want actually satisfied is increased (because the desire for clothing is more pressing than that for amusements), but the intensity of my next urgent want that remains unsatisfied is equally increased (because I now cannot afford amusements, while formerly I could afford amusements but could perhaps not afford more expensive enjoyments).

This then was the theory of progressive taxation resting on equality of sacrifice. A number of recent Dutch writers, who had already in the seventies accepted the final-utility theory of Jevons, applied his theory to the doctrine of progressive taxation just discussed. According to that more modern nomenclature the theory might be put as follows:

Every satisfaction of human wants implies the existence of utility in the commodity which provides this satisfaction. The value of all commodities depends upon their final utility, *i. e.*, upon the serviceableness of the last usable portion to satisfy some particular wants. Since the intensity of our wants and therefore their final utility decreases as we

ascend from the lower or more pressing to the higher or less urgent wants, and since larger incomes supply the means of satisfying these less intense wants, a strictly proportional tax would involve smaller sacrifices in the case of the larger incomes. Strict equality of sacrifices in the sense of relatively proportional diminution of burden thus involves progressive taxation. But it is a well established fact that the number of wants increases as their intensity diminishes. The urgent wants of existence are very pressing indeed, but limited in number; the less urgent wants continually increase in number and variety with wealth and civilization. After a certain point therefore, the differences between the intensity (and final utility) of wants diminishes with the increase of their number and area, until finally when we come to the very large incomes the possibility of satisfying almost all wants becomes equal. Hence while taxation should be progressive, the rate of progression should itself diminish until finally the tax becomes proportional.

The necessity of progressive taxation resting on this gradual decrease of final utility of wants was worked out arithmetically by some of the Dutch authors by constructing the following tables. Each individual is assumed to have an income which he values at a certain percentage; *i. e.*, the final utility of each successive grade of income diminishes as the income increases. In order to ascertain the enjoyment of satisfactions, which would be diminished by a tax, we have simply to multiply the amount of each grade of income by the final utility. If, for instance, C had an income of \$3,000, of which the final utility of the first \$1,000 was 100 per cent, of

the second 95 per cent, and of the third, 91 per cent, he would have this quantity of enjoyment:

\$1000 at 100 per cent. ....	\$1000
\$1000 at 95 per cent. ....	950
\$1000 at 91 per cent. ....	910

\$2860

In this way we may construct the following table:

A has an income of \$1000	which he values for the satisfaction of his wants at	100 %	The whole is then worth to him	\$1000
B " additional 1000	" " "	95	" "	1950
C " " 1000	" " "	91	" "	2860
D " " 1000	" " "	87.5	" "	3735
E " " 1000	" " "	84.3	" "	4578
F " " 1000	" " "	81.3	" "	5391
G " " 1000	" " "	78.4	" "	6175

Now suppose a strictly proportional tax is imposed. If the tax is three per cent, then the amounts paid would be:

A \$30, whose final utility is 100	% i. e.,	\$30.00.	This is 3.	% of the total	\$1000
B 60, " " 95	" "	57.00.	" 2.923	" "	1950
C 90, " " 91	" "	81.99.	" 2.863	" "	2860
D 120, " " 87.5	" "	105.00.	" 2.811	" "	3735
E 150, " " 84.3	" "	126.45.	" 2.762	" "	4578
F 180, " " 81.3	" "	146.34.	" 2.714	" "	5391
G 210. " " 78.4	" "	164.64.	" 2.666	" "	6175

The ratio of sacrifice to enjoyment is, as we see, three per cent in the case of A, 2.92 in the case of B, and 2.67 in the case of G. In other words, we have an inequality of sacrifice, produced by a seeming equality or proportion in the tax. In order to bring about a real equality, so that the ratio of sacrifice to enjoyment may be three per cent in each case, it would be necessary to tax<sup>1</sup>

A, on his \$1000. ....	3.	%
B, " 2000. ....	3.0790	"
C, " 3000. ....	3.1428	"
D, " 4000. ....	3.2014	"
E, " 5000. ....	3.2584	"
F, " 6000. ....	3.3155	"
G, " 7000. ....	3.3755	"

<sup>1</sup>The upper figures are those of Bok, "De Belastingen in het Nederlandsche Parlement van 1848-1888" (1888), 177. The lower table is taken from Cohen-Stuart, "Bijdrage tot de Theorie der progressieve Inkomstenbelasting" (1889), 110, who makes a slight correction in the figures of Bok.

In other words, in order to produce equal sacrifice we must have a progressive rate of taxation.

Thus far had the Dutch economists gone. The arithmetical proof seemed to be complete. The logical necessity of progressive taxation as an outcome of the equal-sacrifice theory, or the final-utility theory, seemed to be put on absolutely secure mathematical foundations. But it was reserved for another Dutch writer to use the same mathematical arguments in order to overthrow the conclusion. In a very recent and most ingenious work, which will be discussed more fully in the historical appendix, Cohen-Stuart shows that the whole elaborate system of computation is erroneous, and that progressive taxation is by no means a logically necessary conclusion from the assumed premises of a decrease in final utility.

It is perfectly possible, in other words, to construct tables which would lead not to progression, but to proportion and even to regression, although in each case we might assume that the successive increment of income is worth less to the owner.

For instance:

A has an income of \$1000		{ which he } values at		100.	%	{ The whole is then } worth to him	\$1000
B	“ additional 1000	“	“	95.	“	“	1950
C	“ “ 1000	“	“	93.8	“	“	2888
D	“ “ 1000	“	“	93.	“	“	3818
E	“ “ 1000	“	“	92.41	“	“	4742

If the tax is three per cent, then the amount paid would be:

A \$ 30 { which he } values at		100.00	% i.e., \$ 30.00.	This is 3.	% of the total	\$1000
B	60 “	95.	“ “	57.00.	“ 2.923 “	“ 1950
C	90 “	93.8	“ “	84.42.	“ 2.923 “	“ 2888
D	120 “	93.	“ “	111.60.	“ 2.923 “	“ 3818
E	150 “	92.41	“ “	138.61.	“ 2.923 “	“ 4742

In order to make the ratio of sacrifice to enjoyment three per cent in each case, it would be necessary to tax *all* the others 3.079 per cent, that is, to tax all the others *proportionally*.

Finally, let us take a third case:

A	has an income of \$1000	{ which he	{	100.	%	{ The whole is then	{	\$1000
		values at				worth to him		
B	" additional 1000	"		80.	"	"		1800
C	" " 1000	"		77.	"	"		2570
D	" " 1000	"		76.4	"	"		3334
E	" " 1000	"		75.6	"	"		4090
F	" " 1000	"		75.	"	"		4840

If the tax is three per cent, then the amounts paid would be:

A	\$ 30	{ which he	{	100.0 %	i.e., \$ 30.00.	This is 3.	% of the whole	\$1000
		values at						
B	60	"		80.	" "	48.00.	" 2.667	" " 1800
C	90	"		77.	" "	69.30.	" 2.696	" " 2570
D	120	"		76.4	" "	91.68.	" 2.750	" " 3334
E	150	"		76.5	" "	113.40.	" 2.772	" " 4090
F	180	"		75.	" "	135.00.	" 2.790	" " 4840

In order to make the ratio of sacrifice to enjoyment three per cent in each case, it would be necessary to tax

A,	on his \$1000	.....3.	%
B,	" 2000	.....3.375	"
C,	" 3000	.....3.338	"
D,	" 4000	.....3.273	"
E,	" 5000	.....3.247	"
F,	" 6000	.....3.226	"

That is, if we omit A, equality of sacrifice could be attained only by taxing the larger income at a *lower* rate.

The objection might be made that there is still a progression from A to B. But Cohen-Stuart explains this by showing that it is due to an error in the assumption. It is assumed that the first \$1,000



will have a final utility of 100 per cent. This is plainly erroneous. For if the last \$30 paid on a tax have a final utility of 100, the final utility of other parts of the \$1,000 must naturally be more than 100. And if we assume that the final utility of the whole \$1,000 is 100, then the final utility of some parts must be less, and of others more, than 100; since there can be no such sudden jumps as from 1,000 to 2,000, etc. This would obviously be true of every successive \$1,000. And thus if we assume that the average final utility differs from the final utility of the portion subtracted as a tax, we could construct the following table:<sup>1</sup>

A	has	\$1000	income	with	an	average	final	utility	100	%	=	total	\$1000
B	has	an	add'l	\$1000		"		"				45	" = " 1450
C	"	"	1000	"	"	"	"	"				37	" = " 1820
D	"	"	1000	"	"	"	"	"				33	" = " 2150
E	"	"	1000	"	"	"	"	"				31	" = " 2460
F	"	"	1000	"	"	"	"	"				29	" = " 2750

If we again assume a proportional tax of 3 per cent, the amounts paid would be:

A	\$ 30	whose	final	utility	is	50	%	= \$15	<i>i. e.</i>	...1.5	%	of \$1000
B	60	"	"	"	"	40	"	= 24	"	...1.655	"	" 1450
C	90	"	"	"	"	35	"	= 31.50	"	...1.733	"	" 1820
D	120	"	"	"	"	32	"	= 38.40	"	...1.786	"	" 2150
E	150	"	"	"	"	30	"	= 45	"	...1.829	"	" 2460
F	180	"	"	"	"	28.5	"	= 51.30	"	...1.865	"	" 2750

In order to make the relation between sacrifice and enjoyment equal for all, *i. e.*, 1.5 per cent, it would be necessary to tax:

A	.....3	%	.....on	his	.....\$1000
B	.....2.719	"	.....	"	..... 2000
C	.....2.600	"	.....	"	..... 3000
D	.....2.520	"	.....	"	..... 4000
E	.....2.460	"	.....	"	..... 5000
F	.....2.412	"	.....	"	..... 6000

Here, then, we have a continually decreasing rate. This would be regressive taxation of the purest type.

It may be said that these tables are all arbitrary. This may be granted. Yet, at all events, they do prove that progressive taxation does not follow as a logical necessity simply from the fact that greater incomes are worth relatively less than smaller incomes, because of the decrease in the intensity of our wants.

Thus the whole elaborate mathematical proof of progressive taxation turns out to be no proof at all. According as we choose our figures we can prove the possibility of progressive, of proportional, or of regressive taxation. Hence the simple fact of the gradual decrease of final utility does not necessarily lead to progressive taxation, nor on the other hand does it necessarily lead to proportional taxation. From the equality-of-sacrifice doctrine of itself we can not deduce any mathematically exact scale of taxation, whether progressive or anything else.

It is true that later on Cohen-Stuart attempts to prove that a hypothetical curve representing a decrease in final utility in all probability corresponds to the true curve, and that this hypothetical curve leads to progressive taxation. But as we shall see more fully in the appendix below,<sup>1</sup> his methods, though ingenious, are not convincing, and he is unable to overcome the arguments with which he has himself demolished the older theory.

This brings us to the very core of the objection to the equal-sacrifice theory, regarded as the paramount consideration in the construction of any definite

<sup>1</sup>Page 188.

rate of progression. The imposition of "equal sacrifices" on all taxpayers must always remain an ideal impossible of actual realization. Sacrifice denotes something psychical, something psychological. A tax takes away commodities which are something material, something tangible. To ascertain the exact relations between something psychical and something material is impossible. No calculus of pains and pleasures can suffice, for no attempt to reduce the heterogeneous to the homogeneous can ever succeed. But even assuming that this could be done, the case for the advocates of equal sacrifice would not be much better. The sacrifice occasioned by a tax is only one factor in the problem, and may be a minor factor. Two men may have the same income, which they may value at very different rates. The one may be a bachelor, the other a man with a large family dependent on him; the one may be well, the other ill; the one may have simple tastes, the other extravagant tastes; the one may be a miser, the other a spendthrift; the one may earn his income, the other may receive it as a gift; the one may spend his income in a village where prices are low, the other may be compelled to spend it in a metropolis where prices are high. The variations in each particular case are numberless. It is utterly impossible to say whether the identical tax on people of identical income or property will produce the same relative pressure, *i. e.*, occasion an equal (that is, a proportional) sacrifice. And since sacrifice bears no definite relation to amount of commodities, it is just as conceivable that in individual cases a regressive tax may produce just as much, or as little, equality of sacrifice as a proportional or a progressive tax.

The attempt to ascertain a mathematical scale of progression, so as to avoid a charge of arbitrariness, is foredoomed to failure. The equality-of-sacrifice theory, taken by itself, cannot lead to any fixed rate of taxation, whether proportional or graduated.

A supposed way out of the difficulty has recently been outlined. One of the leaders of the Austrian school of pure economics, Professor Sax, has boldly maintained that taxation has nothing at all to do with equal sacrifice, and that progressive taxation may be upheld on what he calls purely economic grounds, apart from questions of justice or ethics. This theory is deemed by its author so important and conclusive that it deserves a slightly fuller discussion.<sup>1</sup>

Sax bases his very diffusely expressed, but acutely reasoned, exposition on the assertion that the problems of taxation have nothing to do with ethical, but only with purely economic, considerations; and that therefore the ideas of justice and of equal sacrifice are entirely irrelevant. He divides all human wants into individual and collective. Every person has wants that attach to him simply as an individual; but he also has wants that arise from his political association with other men. It is with these "collectivistic"<sup>2</sup> wants that the science of finance has to deal. The state alone can satisfy the collectivistic wants; and in order to make it possible for the state to satisfy

<sup>1</sup>It will be found in his book, "*Grundlegung der theoretischen Staatswirthschaft*" (1887), esp. §§ 81, 82; and repeated in his essay, "*Die Progressivsteuer*," in the first number of the Austrian *Zeitschrift für Volkswirthschaft, Socialpolitik und Verwaltung* (1892).

<sup>2</sup>It may be observed, in passing, that Sax's nomenclature is not quite exact. There is, indeed, a distinction between individual and collective wants, but it is not the one mentioned by Sax. The

these wants, the individual must support the state. This is the basis of taxation.

The problem of taxation is: How much of a man's stock of goods shall he devote to these collective wants? This must depend, says Sax, on the final utility of the goods taken from the individual. That is to say, our wants vary in intensity, ranging from the most pressing wants—those for absolute necessities of life—through several grades until we reach pure luxuries. The higher we go in the stock of goods at our disposal, the greater, to a certain point, the decrease in the intensity of our wants.<sup>1</sup> The value of any particular quantity of goods is therefore fixed by its final utility, that is, by the serviceableness of the last usable portion to satisfy some particular wants. Now the problem of equal taxation is to take away from individuals such quantities of goods that each individual will value the amount

individual wants are indeed those that attach to one as an individual; but opposed to these are the social or collective wants which can be satisfied only through some form of union with other individuals. There must be an association or collection of individuals, and the wants are hence termed social or collective wants. These are satisfied by all the various forms of modern social and collective organizations. On the other hand we must distinguish between private and public wants of the individual. The private unions are voluntary and take in only portions of society. Organized society as a whole is called the state, and membership in the state is compulsory. The wants which can be satisfied by the state alone are public wants. All public wants are necessarily social or collective wants; but all collective wants are not necessarily public wants. The science of finance has to deal only with public wants, not with collective wants in general.

<sup>1</sup>"Die Progression der Intensitätsabnahme der Bedürfnisempfindungen," as Sax puts it. "Grundlegung der theoretischen Staatswirthschaft," 511. Sax does not use the words "final utility" in his book, although he does employ them in his subsequent essay.

taken from him just as highly as his neighbor will value the amount taken from him.<sup>1</sup> In other words, the final utility of the commodities taken must be equal. This he calls the economic principle of equivalence.<sup>2</sup> But as we have seen that the final utility varies inversely as the amount, the final utility of the commodities taken from two unequally wealthy individuals can be equal only when we take not relatively the same, but a relatively larger, proportion from the wealthier individual. If we took the same proportion from two unequal stocks of goods, A and B, the final utility of the amount taken from the smaller stock A would be far greater than the final utility taken from the larger stock B. In order to make the final utility equal we must take a larger proportion from B than from A. In other words, we must have progressive taxation up to a certain point.<sup>3</sup> "Equality of values taken," not "equality of sacrifice," is the purely economic basis of taxation.

<sup>1</sup>"Die Aufgabe der Besteuerung ist, aus den Privatwirthschaften Güterquanten den Collectivbedürfnissen zuzuführen, welche dermassen verschieden bemessen sind, dass jedes Wirthschaftssubjekt nach dem thatsächlichen Stande des Individualwerthes innerhalb seines Bereiches das seinige eben so hoch werthet wie jedes Andere der von ihm eingeforderten Güter." *Ibid.*, 514.

<sup>2</sup>"Aequivalente. Dieses eine Wort bedeutet die relative Steuer-austheilung *in nuce*." "Die Progressivsteuer," 90.

<sup>3</sup>"Die Progression der Intensitätsabnahme kann nur innerhalb gewisser Grenzen merklich sein, ist man aber einmal bei den Bedürfnissen von absolut sehr niedrigen Stärkegraden angelangt, so können weitere Abstufungen nur mehr an sich höchst geringe Differenzen ergeben die sich der Messbarkeit entziehen." "Grundlegung," 511.

Professor James, in his review of Sax's book in the *Political Science Quarterly*, v, 168, gives an unintentionally erroneous account of Sax's meaning. James says "the state may therefore, for a given service, take very different sums from different private economies because the final utility of the service varies with the

Although Sax heralds this as a great discovery, we may be pardoned for believing that its value for the purposes of the theory of progressive taxation has been considerably exaggerated.

In the first place the doctrine of the gradation of wants had long since been elaborated by the Austrian economists; the final-utility theory of Jevons had been applied to the problems of taxation by the Dutch economists; and lastly, the formulation of the whole doctrine had been developed by Meyer without any suspicion on his part that he had thereby made any specially new discovery. Now the only difference between the equal-sacrifice or final-utility theory of his predecessors and the "equivalence" theory of Sax is a mere difference of words. The equal-sacrifice theory says that the tax must take away such amounts that the resulting pressure or the sacrifice of enjoyments may be relatively proportional; the "equivalence" theory says that taxation must take away relatively proportional amounts. But the taking away or giving up of anything involves a pressure or a sacrifice, whether the sacrifice be voluntary or compulsory. Hence, "equality amount of goods." Sax does not mean anything of the kind. If individuals were to pay taxes in accordance with the final utility of the services, we would practically be going back to the give-and-take theory of taxation which Sax expressly disclaims. It is not the final utility of the state service, but the final utility of the commodities taken away in the shape of taxes, which Sax emphasizes. The final utility, or value, of the state services has nothing to do with the question. It is the final utility of the commodities that the individual pays to the state which must be equal; and it is because the final utility of these varies inversely as the whole stock of goods that Sax demands progressive taxation. We must be careful not to confuse the two notions, as does Professor James. Sax himself protests against a similar confusion of which an Austrian economist is guilty. *Cf.* "Die Progressivsteuer," 91, note.

of values taken'' implies an ''equality of sacrifice'' to the individual.

In fact a ''purely economic'' theory of taxation is as impossible as a ''purely economic'' theory of value, if it is meant that ''pure economics'' can make abstraction of psychological and therefore of ethical considerations. As soon as we introduce the conception of human wants and the means of satisfying these wants, we are dealing with questions of sacrifice of enjoyments. Equality of taxation, therefore, connotes an ethical problem, in the same sense that the general law of value and price connotes an ethical problem. The mediæval theory of *justum pretium*, with its modern successors in the theories of fair wages, of reasonable railway rates and other corporation charges, etc., shows how indissolubly are bound up the problems of ethics and economics. The problems of taxation are of no different kind. And the situation is not altered a whit by regarding taxes as the satisfaction of collectivistic wants. If I have to spend money to support my relatives, it is no less a sacrifice because these duties may be regarded as the satisfaction of individualistic wants, *i. e.*, wants which primarily affect me in the individual relations of my family. All the more must the compulsory subtraction from my wealth by a tax be declared a sacrifice, even though it be regarded as the voluntary satisfaction of collectivistic wants. Hence, whether we call it the purely economic theory or the ethical theory of public finance is immaterial. The ''equivalence'' theory of taxation is simply another way of putting the final-utility or equal-sacrifice theory. They do not oppose each other, they do not even supplement each other;



correctly understood they are simply two distinct methods of explaining the same thing in slightly different words. It is impossible to take away relatively proportional values without inflicting relatively proportional sacrifices.

So far has the modern theory of progressive taxation gone. But if, as we have seen, the equality-of-sacrifice theory taken by itself cannot lead to any fixed rate of progression, must we then range ourselves with those who maintain that progressive taxation is illogical and unjust; and that there are no substantial arguments in its favor, while the opposing arguments are numerous and convincing? Is progressive taxation economically justifiable or not? Is it theoretically sound and practically expedient? These are the problems to which we must address ourselves, after taking up a little more in detail the various advocates of faculty taxation.

### HISTORICAL APPENDIX III.

#### THE FACULTY THEORY LEADS TO PROPORTIONAL TAXATION.

The earliest advocates of the faculty theory were chiefly concerned with a reform of obviously unjust systems of taxation. Their efforts were directed to bringing about some semblance of proportionality as over against the existing regressive systems. And thus we find the faculty theory at first used as a defence of proportion.

One of the earliest writers on taxation was Bodin. Bodin, as is well known, was in favor of taxation only as a last resort in extraordinary exigencies, since

in his opinion the state could and should support itself in other ways. But in so far as taxes are necessary, justice should be observed; and justice consists in apportioning taxation according to faculty.<sup>1</sup> But faculty seems to Bodin simply to denote means or property.<sup>2</sup> He does not analyze the matter any further.

In the same way many of the publicists of the seventeenth century laid down the principle that the burdens of taxation should be in proportion to the faculty, or the powers, of each.<sup>3</sup> The Dutch writer, Boixhorn, expressly tells us that the tax should be proportional to property in order that the burdens and sacrifices might be shared equally by all.<sup>4</sup>

Among English writers, one of the first to uphold this theory was Sheridan. But Sheridan leaves us in

<sup>1</sup>"Sunt igitur ea vectigalia, si modo necessaria, probanda quae in omnes ordines *pro singularum facultatibus* exaequantur." Bodinus, "De Republica" (1577), lib. vi.

<sup>2</sup>"Pro cuiusque opibus ac fortunis." In the French edition of 1577, we read: "Que chacun debuoit porter, eu égard aux biens qu'il auoit." "Les six Livres de la République," 644.

<sup>3</sup>Thus Botero says in his "Della Ragione di stati" (1589): "Proprium est subditorum . . . *per facultates* principes magistratumque juvare."—Bocerus, "De Jure Collectarum" (1617): "Deinde quantitas illa distribuenda est *pro viribus* singulorum tum provinciorum tum civitatum etiam hominum."—Besold, "De Aerario" (1619): "Tributa ergo pro modo census et *facultatum* a singulis pensitabantur."—Klock, "De Contributionibus" (1634): "Collecta per aes et librum, hoc est secundum facultatem patrimonii imponi debet . . . *ut onera commensurata sint viribus* eorum." Cf. Rau, "Finanzwissenschaft" (5th ed. 1865), § 253; and Neumann, "Die Steuer nach der Steuerfähigkeit" (1887), 550.

<sup>4</sup>"In tributis aequalitatis maxima habenda ratio, quae in eo potissimum versatur, ut par sit eorum ratio ac paria hic onera sentiant, quorum pares in diversis licet rebus positae sitaeque sunt opes." Boixhorn, "Institutiones Politicae," lib. i, cap. 10, § 18, no. 9. For Boixhorn's general views on finance, see Laspeyres, "Geschichte der volkswirtschaftlichen Anschauungen der Niederländer," etc. (1863), 239 *et seq.*

doubt whether he finds taxable ability to consist in property or in expenditure. He holds that "all subjects, as well the meanest as the greatest, are alike concerned in the common safety and should therefore according to their respective interests of riches or enjoyments, bear the charge in equal proportions."<sup>1</sup> Again, at the beginning of this century, Frend expressed the common view in saying that "taxation is equitable when each member is taxed in proportion to his means of paying the tax," and he goes on to explain that "the means, which an individual has to pay the demands of the state, must depend on the possession of the sum required by the state, or of property, which will procure that sum."<sup>2</sup> This, he thinks, is the same as saying that "taxation, to be equitable, must leave the subjects in the same relative situation to each other, in which they were the moment before the tax was paid."<sup>3</sup> Frend is thus the real founder of the leave-them-as-you-find-them theory of taxation.

Among modern writers who have partly upheld the faculty theory of proportional taxation, the most important is Parieu. Parieu maintains that the "social-dividend" theory, as he terms it, would logically lead to the "most absurd practical consequences and the most shocking inhumanity."<sup>4</sup> He

<sup>1</sup>"A Discourse on the Rise of Parliament, . . . of Taxes, Trade," &c., by Thomas Sheridan (1677), 146. The book has been reprinted in *fac-simile* by Saxe Bannister in his "Revelations of Irish History."

<sup>2</sup>Wm. Frend, "The Principles of Taxation or Contribution according to Means," &c. (1804), 33-34.

<sup>3</sup>*Ibid.*, 40. Walker, "Political Economy," § 590, thus errs in ascribing the origin of this principle to the author of the *Edinburgh Review* article. See above, p. 96.

<sup>4</sup>"Il faut arriver jusqu'aux conséquences pratiques les plus absurdes, et aussi à l'inhumanité la plus choquante par la négation

considers it necessary to limit that theory by the doctrine of equality of sacrifice. But the doctrine of equality of sacrifice does not seem to him in itself a thoroughly safe doctrine, because it leads to progressive taxation, or "tends irresistibly to social levelling as the ideal."<sup>1</sup> And Parieu comes to the very superficial conclusion that it is possible to combine the social-dividend and the equality-of-sacrifice theories, so as to make of them a compound which is nothing else than purely proportional taxation.<sup>2</sup> In other words, Parieu opposes the give-and-take theory as inadequate; but objects to the sacrifice theory only because it leads to progressive taxation, which seems to him socialistic.<sup>3</sup> That is, he objects to a premise, not because of the untenability of the premise, but because of the danger of the conclusion. This is not a very logical proceeding.

On the other hand, a far larger number of the opponents of the benefit theory modify their demand for proportional taxation by the introduction of the idea of the minimum of subsistence, or even of the so-called clear-income idea. Although they profess to advocate proportional taxation, they in reality favor degressive taxation. Let us study them a little more closely.

absolue de tout secours apporté à la situation de l' indigence et du malheur." Parieu, "*Traité des Impôts*," p. 30 of 2nd ed. (1866).

<sup>1</sup>"La théorie de l'égalité des sacrifices paraît placée sur la pente irrésistible qui conduit au nivellement social comme type de perfection." *Ibid.*, 26.

<sup>2</sup>"Il semble possible de rapprocher la théorie du contrat onéreux et celle de l'égalité des sacrifices dans cette idée moyenne et simple qui proportionne l'impôt aux biens particuliers." *Ibid.*, 31.

<sup>3</sup>"La théorie de l'impôt progressif paraît partir de cette idée que la société doit chercher à réaliser par l'impôt une égalité de situation, non relative à la masse des biens et aux propriétés acquises, mais absolue pour la personne de chaque citoyen." *Ibid.*, 37.

## HISTORICAL APPENDIX IV.

THE FACULTY THEORY LEADS TO DEGRESSIVE  
TAXATION.

The chief representative of this tendency is John Stuart Mill. Although often regarded as the true originator of the equality-of-sacrifice doctrine, Mill was not really the first to advance the idea. It is only the sad ignorance of the history of the science of finance among so many modern writers that could have ascribed to Mill doctrines which had been expounded long before him. But Mill was indeed the first to draw from this principle the conclusion of degressive taxation. Mill strongly objects to the *quid-pro-quo* theory, and lays down his general principle in the following words: "As in a case of voluntary subscription for a purpose in which all are interested, all are thought to have done their part fairly when each has contributed according to his means, that is, has made an equal sacrifice for the common object; in like manner should this be the principle of compulsory contributions; and it is superfluous to look for a more ingenious or recondite ground to rest the principle upon."<sup>1</sup> And in another place he says: "Equality of taxation as a maxim of politics means equality of sacrifice. It means apportioning the contribution of each person toward the expenses of government so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his."

Mill, however, thinks that the principle cannot lead to progressive taxation. The statement that

<sup>1</sup>"Political Economy," book v, chap. ii, § 2. ii, 398, of Appleton's (1880) edition.

“to take £100 from £1,000 is a heavier impost than £1,000 taken from £10,000, seems to me too disputable altogether, and even if true at all, not true to a sufficient extent to be made the foundation of any rule of taxation. Whether the person with £10,000 a year cares less for £1,000 than the person with only £1,000 a year cares for £100, and if so, how much less, does not appear to me capable of being decided with the degree of certainty on which a legislator or a financier ought to act.” Mill thinks that the portion of truth which the doctrine contains “arises principally from the tax which can be saved from luxuries, and one which trenches in ever so small a degree upon the necessities of life or what is conducive to the support or to the comfort of existence.” Hence Mill concludes that the most equitable plan is to exempt a certain minimum of income, but to tax everything above that proportionally—a theory which he erroneously seems to think originated with Bentham.

Of course the objection is obvious that the degrees of income which are “conducive to the support or to the comfort of existence” vary with the standard of life, and that according to Mill’s own theory no really equitable fixed minimum of subsistence can be determined. If equality of sacrifice is the only defence of the exemption of the minimum of subsistence, we could not stop with this; for human wants shade into each other by imperceptible gradations. It is worth mentioning also that Mill strongly favors a progressive rate in the case of legacy and inheritance taxes; and that he favors differentiation in the rate of the income tax, according as the income is a life income, or a perpetual income. It is remarkable that in

favoring the latter demand Mill advances precisely the argument which he refuses to accept in the discussion of graduation. "It is not because the temporary annuitant has smaller means, but because he has greater necessities, that he ought to be assessed at a lower rate," says Mill. Yet the more urgent demands on the income of the life annuitant cannot be fixed by the government with any more "certainty" than the more urgent demands on the income of the poorer man. What is sauce for the goose is sauce for the gander. The reasoning is exactly the same. It is entirely illogical to uphold differentiation of taxation and to oppose progression of taxation. Moreover, although Mill is such a strong upholder of what he thinks is proportional taxation, it has been pointed out that he is really abandoning the whole contention. As Faucher truly says, "Exemption of any revenue is simply the entering wedge of progressive taxation."<sup>1</sup> And because this seems to him inevitable, Faucher objects to all income taxation. For progressive taxation, he thinks, reduces all to a common level of misery.<sup>2</sup>

The earliest important German writer to deduce degressive taxation from the faculty theory was Rau. Rau confesses that in general a certain sum of money

<sup>1</sup>"On pose le premier jalon de l'impôt progressif dès que l'on affranchit de la taxe sur le revenu certaines classes de contribuables." Léon Faucher, "De l'Impôt sur le Revenu," in his "Mélanges d'Economie Politique et de Finance" i (1856), 57.

<sup>2</sup>"Oui, l'impôt progressif est au bout de l'impôt sur le revenu. Il en représente la fatalité. Aveugle qui ne la voit pas, et insensé qui la dissimule . . . L'idéal de la loi agraire se trouve réalisé, car l'impôt étend alors sur les citoyens un niveau commun de misère." *Ibid.*, 59.—Cauwès, "Précis du Cours d'Economie Politique," ii, 572, displays his customary carelessness in terming Faucher a partisan of progressive taxation.

has a higher value for its possessor according as it forms a larger part of the amount available for expenses. From this he draws the remarkable conclusion that all will be able to give up a proportional part of their property with equal sacrifices. Proportional taxation is the most equitable and just.<sup>1</sup> But in another part of his work Rau explains that he means a proportional taxation of clear income only, by which he understands the exemption of the minimum of subsistence; and this he explains is fixed by the normal standard of life.<sup>2</sup> Since this is very difficult of exact ascertainment, Rau has no objection to a tax on the whole income, but graduated up to a certain point, in order to effect a virtually proportional taxation on the clear income. Later on, however, Rau is inconsistent enough to confess that the theory of sacrifice may logically lead to progressive taxation, which he rejects because of its dangerous tendencies.<sup>3</sup>

Somewhat later, another German writer went into the subject a little more fully. Umfenbach is a great opponent of the give-and-take theory, and maintains

<sup>1</sup>“Mann kann annehmen, dass eine gewisse Geldsumme für den Besitzer einen desto höheren Werth hat, einen je grösseren Theil seines ganzen verwendbaren Gütervorrathes sie ausmacht und einen je grösseren Theil des gessamten ihm zu Gebote stehenden Gütergenusses sie folglich entspricht . . . Es werden daher Alle einen gleichvielsten Theil (Quote) der zu ihrer Verfügung stehenden Gütermenge ungefähr gleich leicht oder schwer abgeben können.” Rau, “Finanzwissenschaft” (1832-1837), § 253. 5th ed. (1864), iii, part 1, 395.

<sup>2</sup>“Es ist gerecht und zweckmässig dass nur der Theil der ganzen Einnahme in Anschlag gebracht wird der den mittleren standesmässigen Unterhaltsbedarf des Arbeiters und seiner Familie übersteigt, sowie überhaupt der mit einem Einkommen nothwendig verknüpfte Kostenaufwand in Abrechnung kommen muss.” *Ibid.*, § 391; iii, part 2, 170.

<sup>3</sup>*Ibid.*, § 400; iii, part 2, 195.



that the only principle is to tax individuals according to their "economic capacity to pay."<sup>1</sup> But this, he maintains, means proportional, not progressive, taxation, because in the eyes of the state equal revenue connotes equal faculty, for the reason that equal income yields equal enjoyment. The state has nothing to do with the subjective impressions of the taxpayer; how far a man's income may suffice for the satisfaction of his comforts and luxuries is purely a subjective matter. The state has no right to inquire into this unless we are willing to say that it is the function of the state to level inequalities of fortune. The whole theory of progressive taxation is simply a result of false sentimentalism.<sup>2</sup> The only really legitimate kernel of progressive taxation consists in the exemption of a definite minimum of existence, because it is virtually impossible for the state to tax this.<sup>3</sup>

The only other German writers of any importance who advocate the degressive theory are those who have been chiefly influenced by Mill. Both Bergius and Pfeiffer, the authors of bulky volumes on public

<sup>1</sup>"Die ökonomische Steuerfähigkeit."

<sup>2</sup>"Für die Finanzpolitik kann auf Grund menschlich allgemeiner Werthschätzung als Regel nur gelten, dass gleich grosses Einkommen gleich grosse Steuerfähigkeit hat, weil es in seiner Verwendung gleich grossen Genuss gewährt. Regelmässig verschieden, was dann die Besteuerungspolitik völlig unbeachtet lässt, ist die Genussrichtung; regelmässig übereinstimmend, worauf die Besteuerung fusst, ist die Genusshöhe . . . Die Finanz lässt durch die Besteuerung von jeder gleichen Genusshöhe gleichviel wegnehmen; aber sie ist nicht dazu da, um mit Hilfe und auf Kosten der Besteuerung der Subjectivität dieser oder jener Einzelnen zu einer opulenteren Genusshöhe des Auskommens zu verhelfen, als deren Einkommen entspricht." Umpfenbach, "Lehrbuch der Finanzwissenschaft" (1859). Cf. 2nd ed. (1887), § 82, pp. 166-167.

<sup>3</sup>"Mit Abzug des auf jedes Einkommen treffenden Existenzminimums steht die einzige zulässige Steuerprogression fest." *Ibid.*, 173.

finance, follow Mill almost word for word.<sup>1</sup> Pfeiffer, however, in demanding the exemption of the minimum of subsistence, desires that an allowance be made for the number of children.

The advocates of degressive taxation as an outcome of the faculty theory of taxation are therefore very few in number. It is evident that their position is not a strong one, and that their attitude is based on a half-way reasoning. It is not surprising, then, that the great majority of writers of this school should go the whole length and plead for progression as a necessary outcome of the faculty theory of taxation. With this far larger wing we have now to deal.

## HISTORICAL APPENDIX V.

### THE FACULTY THEORY LEADS TO PROGRESSIVE TAXATION.

One of the earliest defenders of this doctrine was Montesquieu, although his argument is not always consistent. Montesquieu, we know, gave the celebrated definition of taxes which classes him among the partisans of the benefit theory.<sup>2</sup> Yet, when speaking of the progressive tax in Athens, he upholds it on entirely different grounds. "In the personal tax," says Montesquieu, "the proportion which would exactly follow the proportion of property would be unjust. The Athenian tax was just, although not proportional. If it did not follow

<sup>1</sup>Bergius, "Grundsätze der Finanzwissenschaft" (1865). Cf. esp. 2nd ed. (1871), 407-410.—Pfeiffer, "Die Staats-Einnahmen" (1866), i, 80; ii, 26-33, 41-45, 538.

<sup>2</sup>See above p. 92.

the proportion of property, it followed the proportion of wants. It was held that every one had an equal amount necessary to his subsistence; that this necessary portion ought not to be taxed; that the useful came next, and that it ought to be taxed, but less than the superfluous."<sup>1</sup> We see from this passage that Montesquieu defends progressive taxation because the curtailment of luxuries involves less sacrifice than the curtailment of necessities. But he adds immediately: "It was thought that the size of the tax on the superfluous would prevent the superfluous."<sup>2</sup> This would seem to imply the socio-political or socialistic theory of progressive taxation, that it is the duty of the state to remedy inequality of wealth. Montesquieu must therefore be regarded as inconsistent, although in the main he may be classed under the division here discussed.

Very much the same ideas were developed by the French economist Montyon. Not only must the sum necessary to existence be exempt, but the revenue which is devoted to the satisfaction of wants not far removed from necessities must be very lightly taxed; while fortunes whose product exceeds what is necessary both for necessities and for comforts belong in far greater part to the state.<sup>3</sup> Montyon pleads in

<sup>1</sup>"Dans l'impôt de la personne, la proportion injuste seroit celle qui suivroit exactement la proportion des biens . . . La taxe étoit juste, quoiqu'elle ne fût point proportionnelle; si elle ne suivoit pas la proportion des biens, elle suivoit la proportion des besoins. On jugea que chacun avoit un nécessaire physique égal; que ce nécessaire physique ne devoit point être taxé; que l'utile venoit ensuite, et qu'il devoit être taxé, mais moins que le superflu." Montesquieu, "De l'Esprit des Lois," book xiii, chap. vii.

<sup>2</sup>"Que la grandeur de la taxe sur le superflu empêchoit le superflu."

<sup>3</sup>"Non seulement l'impôt personnel ne doit point morceler ce qui est absolument nécessaire à la subsistance du contribuable; mais

especial for a diminution of the rate in favor of fathers of large families.

The most celebrated French advocate of progressive taxation is J. B. Say. Say maintains that taxation is a sacrifice made to public order; but public order can not demand the sacrifice of whole families. Hence, the minimum of subsistence must be spared. When we go beyond that, Say confesses that uncertainty begins. The line that separates superfluities from necessities is not fixed, but relative. "All that we know is that after a certain point there is in every income an imperceptible progression, so that a family can satisfy ever less necessary wants, until the wants become almost unfelt."<sup>1</sup> And he gives the

par une suite de ce principe, il doit être gradué dans une telle proportion de la fortune, qu'un revenu qui ne fournit que quelques douceurs d'existence si proches des besoins qu'elles peuvent se confondre avec eux, et que, sans elles, l'existence serait un mal plutôt qu'un bien, ne soit grevé que d'un impôt très léger, si toutefois il en doit supporter aucun; un revenu qui confère une plus grande aisance doit être plus fortement imposé; et dans une grande fortune, les produits qui excèdent ce qu'exigent les besoins et l'aisance, peuvent en très grande partie être consacrés aux besoins de l'Etat." Montyon, "Quelle Influence ont les diverses Espèces d'Impôts sur la Moralité, l'Activité et l'Industrie des Peuples" (1808). In "Mélanges d'Economie Politique" (Guillaumin's *Collection des principaux Economistes*) ii (1848), 391.

<sup>1</sup>"Tout ce qu'on sait, c'est que les revenus d'un homme ou d'une famille peuvent être modiques au point de ne pas suffire à leur existence, et que depuis ce point jusqu'à celui où ils peuvent satisfaire à toutes les sensualités de la vie, à toutes les jouissances du luxe et de la vanité, il y a dans les revenus une progression imperceptible, et telle qu'à chaque degré, une famille peut se procurer une satisfaction toujours un peu moins nécessaire, jusqu'aux plus futiles qu'on puisse imaginer; tellement que si l'on voulait asseoir l'impôt de chaque famille, de manière qu'il fût d'autant plus léger qu'il portât sur un revenu plus nécessaire, il faudrait qu'il diminuât, non pas simplement proportionnellement, mais progressivement." J. B. Say, "Traité d'Economie Politique" (1803), book iii, chap. ix; 8th ed. (1876), 548.

classic example of two families with 300,000 and 300 francs income respectively. A proportional tax of ten per cent would leave the one family 270,000 income, which would scarcely affect the satisfaction of its wants at all; but it would leave the other family only 270 francs and thus rob it of the necessary means of existence. "A tax which is simply proportional to income would hence be far from just. I shall go further and shall not hesitate to say that the progressive tax is the only just tax."<sup>1</sup> And in another work, after stating that the protective theory logically leads to proportional taxation, he asks, "Is not a simply proportional tax heavier for the poor than for the rich? Ought the man who earns only enough to feed his family to be taxed in exactly the same proportion as the man who, because of his ability, his original capital or his landed property, earns enough not only to defray all the expenses of a luxurious life, but who, in addition, yearly adds to his capital? Do you not find in this demand something that shocks your feeling of justice?"<sup>2</sup> In other words, Say bases his demand of progressive taxation on the theory of sacrifice.

Since Say, but few French writers have advocated progression. But those that have done so have generally been overlooked. Let us take them up in their historical order.

Esmenard du Mazet defends progressive taxation on the express ground that every citizen must make

<sup>1</sup>"On voit donc qu'un impôt qui serait simplement proportionnel au revenu serait loin cependant d'être équitable . . . J'irai plus loin, et je ne craindrai pas de prononcer que l'impôt progressif est le seul équitable." *Ibid.*, 549.

<sup>2</sup>J. B. Say, "Cours Complet d'Economie Politique Pratique" (1829), part viii, chap. iv; Brussels ed. (1844), 495.

an equal sacrifice, that is, a sacrifice which will make them all equally feel the privation imposed upon them by the tax. "The possessor of 20,000 francs income who is taxed 2,000 francs, is less affected by the tax than he who with 1,000 francs pays 100. Otherwise we would have to admit that all our wants were equally urgent."<sup>1</sup> And more recently the Belgian economist Denis has taken a similar position, although he maintains that the contest between the principles of proportion and progression is interminable as long as there exists an inequality in wealth.<sup>2</sup>

The most abstract attempt to prove that the sacrifice theory leads to progressive taxation was made by Fauveau, who applies the mathematical method. Fauveau, we remember, maintained that even from the standpoint of benefits taxation must be progressive.<sup>3</sup> But the equality-of-sacrifice theory, in his opinion, leads to the same result. The moral sacrifice imposed on individuals by taxation does not depend alone, he thinks, on the amount of money taken. The loss of the same sum of money is far more burdensome to the poor than to the rich, because in the first case it trenches on necessities, in the second on superfluities. Hence the moral value of a man's fortune does not increase as fast as its mathematical

<sup>1</sup>"Tous les citoyens doivent faire, dans l'intérêt de la chose publique, un sacrifice égal, c'est à dire qui leur fasse également sentir la privation que ce devoir impose . . . Ainsi donc, et le sentiment intérieur et l'expérience sont d'accord pour nous faire adopter dans le répartition de l'impôt une autre base que la simple proportion de la fortune." Camille Esmenard du Mazet, "Nouveaux Principes d'Economie Politique" (1849), ii, 283.

<sup>2</sup>"Je considère l'opposition des deux tendances comme indéfectible aussi longtemps que subsistera l'inégalité des richesses." H. Denis, "L'Impôt" (1889), 89-91.

<sup>3</sup>Above, page 126.

value.<sup>1</sup> The moral value of a given amount of property may be considered a *function* of its mathematical value, a function which increases less rapidly than the variable. The moral sacrifice, hence, is the difference between the moral value of a man's fortune before the payment of the tax and after its payment. Great mathematicians like Laplace and Poisson have shown that the moral increase of wealth may be deemed proportional to its mathematical increase and inversely as the total value of the fortune, whenever this increase is infinitely small. Hence taxation based on equality of sacrifice must be progressive, although the rate of progression must be less than in the case of taxation looked upon as an insurance premium.<sup>1</sup> The exact rate is expressed by Fauveau after several pages filled with operations in differential calculus, in a formula two lines long, which it would be beside the mark to reproduce here.

The English writers have hitherto been almost entirely neglected by the historians of public finance.

“La perte d'une même somme d'argent est beaucoup plus pénible pour le pauvre que pour le riche, parcequ'au premier c'est le nécessaire, au second c'est le superflu qui se trouve enlevé. On comprendra aisément qu'en conséquence de cette vérité la fortune d'un homme n'a pas pour lui une valeur morale qui croisse aussi vite que sa valeur mathématique, tout accroissement de bien égal diminuant de valeur alors qu'il rapporte des choses de moins en moins nécessaires.” Fauveau, “Considérations Mathématiques sur la Théorie de l'Impôt” (1864), 33.

“On peut donc considérer la valeur du bien d'un individu comme une *fonction* de la valeur *mathématique* de ce bien, fonction qui croit moins rapidement que la variable . . . Le sacrifice moral imposé à chacun c'est la différence de la valeur de la fortune de l'individu avant le paiement de l'impôt et après . . . L'accroissement moral de la fortune peut être considéré comme proportionnel à son accroissement mathématique et en raison inverse de la valeur totale de la fortune, toutes les fois que cet accroissement est infiniment petit . . . A ce point de vue l'impôt doit être progressif.” *Ibid.*, 35 and 41.

The earliest exposition of progressive taxation resting on faculty is to be found in the writings of a celebrated divine, Dr. Paley. He lays down his views in the following words: "A tax, to be just, ought to be accurately proportioned to the circumstances (or more correctly perhaps, to the amount of the property) of the persons who pay it. But upon what, it might be asked, is this opinion founded, unless it could be shown that such a proportion interferes the least with the general conveniency of subsistence? Whereas, I should rather believe, that a tax constructed with a view to that conveniency, ought to *rise* upon the different classes of the community *in a much higher ratio* than the simple proportion of their incomes. The point to be regarded is not what men *have*, but what they can *spare*; and it is evident that a man who possesses £1,000 a year can more easily give up £100 than a man with £100 can part with £10; that is, those habits of life which are reasonable and innocent, and upon the ability to continue which the formation of families depends, will be much less affected by the one deduction than by the other. It is still more evident that a man of £100 a year would not be so much distressed in his subsistence by a demand from him of £10, as a man of £10 a year would be by the loss of £1."<sup>1</sup> And he then goes on to discuss whether "the simple, the duplicate, or any higher or immediate proportion of men's incomes" is the real ideal.

A fuller exposition of the doctrine is contained in the work of Craig, who is the first English writer to devote a separate volume to problems of public

<sup>1</sup>Paley, "Elements of Political Knowledge," chap. xi, sec. iv, "Taxation." In his collected works, ed. 1830, iii, 511.



finance. Although Craig sometimes uses language that seems to imply the give-and-take theory, yet his defence of progression is based primarily on the equality-of-sacrifice theory. Thus he says: "The taxes which each inhabitant pays to the state consist of the quantity of enjoyment of which he is deprived. . . . It seems reasonable that the portion of enjoyments so yielded by individuals should correspond to that which they respectively retain."<sup>1</sup> Craig divides all enjoyments into three classes: necessities, gratifications and superfluities. After a lengthy examination of the privations occasioned to individuals by the diminution of each of these various classes, he concludes that "taxes, if proportioned to wealth, occasion more severe privations to the poor than to the rich," and that "the proportion of the public burdens laid on each individual ought to increase in a quick progression, according to his wealth."<sup>2</sup> Craig also attempts to prove that the state is compelled to assume certain expenditures directly traceable to the demands of the wealthy, and that hence the "pre-eminently wealthy" ought to pay more than in proportion to their wealth. But this is plainly the give-and-take theory and open to some question, although, as we remember, it was advanced by Cordocet; and Craig is in the main content to base his demands for progression on the theory of privation of enjoyments, or equality of sacrifice. Later on he applies the theory of "sacrifice of enjoyments" not only to what he calls the principle of "gradation" of the tax,<sup>3</sup> but also to what is generally

<sup>1</sup>John Craig, "Elements of Political Science" (1814), ii, 264.

<sup>2</sup>*Ibid.*, ii, 270, 279.

<sup>3</sup>In discussing the first maxim of Adam Smith, he introduces the "important modification" by the assertion "that according to justice as well as expediency, the proportion which the taxes

known as the principle of differentiation of the tax, *i. e.*, making a distinction according to the source whence the income is derived. Proportional taxation on all income would be grossly unequal. The inequality, he thinks, may be mitigated, not only by progressive taxation, but "by making the rate depend partly on property and partly on income," *i. e.*, by capitalizing the income.<sup>1</sup> But Craig sees that even these arrangements would not bring about a complete equality of sacrifice. "Sources of inequality would still remain in the state of health of the contributor, in the probability of his employment being permanent, and in the various risks to which commercial speculations are necessarily, though very unequally, exposed."

Buchanan, the acute commentator of Adam Smith, was also in favor of progressive taxation, and for very much the same reason. He tells us: "The injustice of fixing a common rate of contribution for all incomes, however various, is sufficiently obvious; since an income of £10,000 per annum might pay, without any great hardship, a proportion which, if exacted from a smaller income, would force a retrenchment, not of comforts merely, but of absolute necessities. The rate of contribution to be equitable ought therefore to vary, gradually ascending, until it rises to its maximum among the highest incomes."<sup>2</sup>

bear to the property of each contributor ought to increase progressively according to the wealth." *Ibid.*, iii, 5.

<sup>1</sup>"All revenue derived from annuities or professions might be brought to a capital, according to the number of years at which the life of the annuitant was valued, and the tax might then be levied on this fictitious property." *Ibid.*, iii, 23.

<sup>2</sup>David Buchanan, "Observations on the Subjects treated of in Dr. Smith's Inquiry into the Nature and Causes of the Wealth of Nations" (1817), 211.

The most comprehensive, and in fact the only elaborate, work devoted specifically to the income tax in English is that of Sayer.<sup>1</sup> Sayer takes it for granted that income is the best test of ability. "Considering equality of taxation to signify taxation in due proportion to every one's means and ability to pay, that most just principle of taxation, it seems to follow that income, which constitutes and evidences the means to pay, is the surest basis for equal taxation." Sayer maintains that income is far superior to expenditure as a basis of taxation because a tax on income "admits practically of a gradation" or "gradually increasing scale of taxation, according to which the rate of it will become higher as the means for the contribution increase."<sup>2</sup> Another advantage of the income tax is that it admits of a proportionate reduction to persons having large families, "on the principle that taxation should be exacted in proportion to every one's ability to bear it, and as a man with a family to maintain is less liable to bear taxation than a man without a family."<sup>3</sup> Sayer defends the general theory of "the graduated scale of charge" for the reason "that the deduction which it makes from inferior incomes occasions a deprivation of the necessities of life, while the deduction from large incomes deprives of luxuries only, or of such conveniences or enjoyments as can be spared without so much personal distress and suffering as the want of

<sup>1</sup>"An Attempt to show the Justice and Expediency of substituting an Income or Property Tax for the present Taxes or a Part of them, as affording the most Equitable, the least Injurious and the least Obnoxious Mode of Taxation" (1833). It was published anonymously, but was written by Benjamin Sayer. Cf. McCulloch, "Literature of Political Economy" (1845), 339.

<sup>2</sup>*Ibid.*, 3, 4.

<sup>3</sup>*Ibid.*, 28, 248.

absolute necessities occasions.”<sup>1</sup> He discusses some objections made to the principle, and although confessing that there are certain doubts as to the practicability of carrying out the entire system of graduation, he nevertheless upholds progressive taxation as in the main just and expedient. Sayer’s whole discussion is noteworthy.

Several years later, at the time that the principles of the English income tax were actively discussed, progressive taxation was again demanded. Buckingham based his contention on the clause of Adam Smith that people should pay in proportion to their respective abilities. “So long as a man with an income of £300,000 a year must be more able to pay thirty per cent of income tax than a man of £50 a year to pay five per cent, so long must the graduated scale be considered more just than a uniform one for all classes.”<sup>2</sup> And later on he explains that “the very wealthiest who paid the heaviest amount and the largest proportion of their incomes would after all be least inconvenienced by such payment, since it is not so much the amount that is contributed by them, as the surplus amount of fortune or income still left in their possession, which affects their happiness.”<sup>3</sup>

We come next to the German economists, among whom we find a far larger number of adherents of

<sup>1</sup>“An Attempt to show the Justice and Expediency of substituting an Income or Property Tax for the present Taxes or a Part of them, as affording the most Equitable, the least Injurious and the least Obnoxious Mode of Taxation” (1833), 219.

<sup>2</sup>James S. Buckingham, “National Evils and Practical Remedies” (1849), 351. Cf. also the “Financial Reform Tracts” (1850), no. 27, p. 6. The subject is fully discussed from the same standpoint in another work by Buckingham, “Plan of an Improved Income Tax” (1845), 13-25.

<sup>3</sup>*Ibid.*, 370.

progressive taxation. The first of the Germans to demand progression as the outcome of the faculty theory was Schön. He breaks with the give-and-take theory and asserts that taxes should be in accordance with ability.<sup>1</sup> But he maintains that a proportional tax would really create economic inequality. It must be said, however, that Schön also partly advocates the socialistic theory in so far as he says that in democracies the cardinal point is to prevent great inequality of wealth, and that progressive taxation is a far better engine for accomplishing this result than the drastic measures of a Lycurgus. He naively maintains, however, that in aristocracies and monarchies, on the other hand, inequality of wealth is unavoidable, but that progressive taxation is nevertheless to be demanded as the most equitable, although the rate of progression must be different.<sup>2</sup> In democracies he proposes that the rate should increase arithmetically with every arithmetical increase in the income; in aristocracies and monarchies the rate should increase with every *doubling* of the income.<sup>3</sup>

After Schön, progressive taxation was not again demanded for several decades in Germany although, as we have seen, this demand is frequently found in England. Recently, this relation has been reversed. The English writers have not favored progression

<sup>1</sup>“Fähigkeit” is the word he uses. Johannes Schön, “Die Grundsätze der Finanz” (1832), chap. 5, esp. p. 61.

<sup>2</sup>*Ibid.*, 58–60.

<sup>3</sup>“Es darf [in Demokratien] nur die Abgabe im arithmetischen Verhältnisse steigen, wenn die Einkünfte im arithmetischen Verhältnisse wachsen; in Monarchien und Aristokratien müsste der Steuerfuss bloß dann in arithmetischen Verhältnisse wachsen, wenn das Einkommen eine Verdoppelung erlanget.” *Ibid.*, 60.

but the Germans have. Let us take up then the chief German advocates of progression during the past twenty years.

The eminent economist, Held, lays the chief stress on equality of sacrifice. If we accept equality of sacrifice as a principle, proportional taxation is absolutely illogical, in his opinion. Held maintains that the principle of equality cannot possibly lead to any arithmetical relation between income and pressure of taxation as the only equitable principle. This is all the more true because income itself does not seem a practicable standard by which to measure individual sacrifice. Income may, indeed, give us a measure for the relative individual power to dispose of economic values; but he who disposes of equal values is not able, on that account, either to enjoy equally or to suffer privation equally.<sup>1</sup> Income, in other words, is no absolute test of justice in taxation. Held concludes that proportional taxation is illogical, and that it is useless to endeavor to realize equality of sacrifice. The best taxes are those which are least complained of.<sup>2</sup> Yet, later on, in constructing his positive system, he includes, as one of the fundamental taxes, a progressive income tax.<sup>3</sup>

The most noted of the German defenders of progressive taxation is Neumann. Neumann thinks that the principle of faculty is really not different from that of equal sacrifice. Were the ability to pay

<sup>1</sup>“Das tauschwerthe Einkommen des Einzelnen giebt uns ein Mass für die vergleichsweise Macht der Einzelnen, über ökonomische Werthe zu verfügen—aber wer über gleiche Werthe verfügt, kann desshalb nicht immer gleich Viel geniessen und gleich Viel entbehren.” Held, “Die Einkommensteuer” (1872), 113.

<sup>2</sup>*Ibid.*, 115.

<sup>3</sup>*Ibid.*, 189.

taxes an absolutely fixed quantity, like measure and weight, then, indeed, it might be asked: What has faculty to do with sacrifice? But, in reality, faculty is not something definitely fixed. When anyone has to fulfill any duty, whether to father or to fatherland, his ability generally increases in proportion as he imposes efforts on himself, and, furthermore, it generally increases in proportion as he denies himself pleasures, enjoyments and the satisfaction of wants. In both cases, thus, the ability increases with the sacrifice—the sacrifice of the effort and the sacrifice of the denial. Sacrifice and faculty in this sense are hence not different things, but stand in the closest relation to each other. In fact, it may be said: Only through a recognition of the sacrifice imposed can the measure of ability attain a definite form, and thus be of any use for purposes of taxation.<sup>1</sup> It might be said, indeed, that if two persons, with equal efforts, annually earn \$1,000 and \$10,000, respectively, their ability to pay taxes is as one to ten. But this is not true, because the state is not the only one to

<sup>1</sup>“Wäre die Leistungsfähigkeit—oder richtiger gesagt die Fähigkeit zu bestimmter Pflichterfüllung beizutragen—bei A, B, C, u. s. w., eine *feststehende* Grösse, wie Mass und Gewicht bestimmter Bezeichnung, so hätte jene Annahme recht. Was hätte denn jene Fähigkeit mit dem Opfer zu thun, das die Leistung auferlegt?! In der That ist jene Fähigkeit aber etwas Feststehendes *nicht*. Wer zur Erfüllung seiner Pflicht zu leisten hat, gelte es dem Vater oder dem Vaterlande—dessen Befähigung hiezu wächst im Allgemeinen, je nachdem er sich Arbeitsmühen auferlegt, und sie wächst ebenfalls im Allgemeinen, je nachdem er sich Genüsse, Freuden und die Befriedigung von Bedürfnissen versagt. In beiden Beziehungen also steigert sich die Befähigung mit dem gebrachten Opfer, dem Opfer der Mühe und dem der Entsagung. Und Opfer und Leistungsfähigkeit in dem hier in Rede stehenden Sinne sind also nicht disparate Dinge, sondern stehen in inniger Beziehung zu einander.” F. J. Neumann, “Die progressive Einkommensteuer in Staats- und Gemeindehaushalt” (1874), 62.

take advantage of their ability. The state must, so to speak, divide the taxpayer's ability with his family. The state must look at the sacrifices occasioned. Of course, the state cannot take cognizance of all the individual elements of each man's condition; this would be as impracticable as it is impossible. The state has to deal only with the average men, average needs and average conditions.<sup>1</sup> The principle therefore must be: To apportion taxes in such a manner as to correspond to the ability to contribute to public purposes with generally equal efforts and equal sacrifices as over against other needs.<sup>2</sup>

Neumann objects to the phrase equality (*Gleichmässigkeit*) of taxation as in itself giving no clue. If individuals are taxed according to the number of their teeth, or the length of their eyebrows, or their weight, we have, in one sense, an equality of taxation. What is it that should be equal? asks Neumann. What is the test or norm of equality? Some say that it should be equal to the income, so that everyone will be left in the same relative position as before, and they conclude that proportional taxation of income is therefore the only equal taxation. But Neumann objects that this is no principle of taxation, any more than the opposite

<sup>1</sup> "Natürlich können freilich immer nur Durchschnittsmenschen, Durchschnittsbedürfnisse, Durchschnittsgefühle und Durchschnittsempfindungen in Anschlag gebracht werden." F. J. Neumann, "Die progressive Einkommensteuer in Staats- und Gemeindehaushalt" (1874), 63.

<sup>2</sup> "Nach Massgabe der Leistungs- oder genauer gesagt, der Steuerkraft d. h. so zu vertheilen, wie es der Befähigung zur Leistung in Staat und Gemeinde bei etwa gleicher Anstrengung und etwa gleichen Opfern andern Bedürfnissen gegenüber entspricht." *Ibid.*, 63.



idea that it is the function of the state to alter conditions of wealth. And secondly, he holds that even if we accept the principle, proportional taxation of income does not logically ensue. For in actual life the same percentage of income tax may affect different individuals very differently, according as their whole economic condition changes.<sup>1</sup>

The logical conclusion from the principles of faculty and equality of sacrifice seems to Neumann progressive taxation. We do not tax individuals according to their faculty if we tax A, with ten times as much income as B, only ten times as much. For, after satisfying his necessary wants, A still has not only ten times as much left with which to discharge his duty toward the state, but far more than ten times as much. His faculty is greater. And in the same way, it is undeniable that \$15 tax is far harder to bear for a man with \$300 income, than a tax of \$1,500 for a man with \$30,000 income. The sacrifice is greater. And as the rate of the tax becomes higher, the difference in the sacrifice is still more apparent. Thus, from the standpoint both of faculty and of sacrifice, equality of taxation means progressive taxation.<sup>2</sup>

One of the chief objections to progressive taxation is that as the progression increases the tax must finally confiscate a man's entire income. But such a view overlooks the fact, says Neumann, that the progression is not to affect higher incomes as such, but only the surplus incomes; since it is only these surplus amounts which generally subserve the less

<sup>1</sup>F. J. Neumann, "Die progressive Einkommensteuer in Staats- und Gemeindehaushalt" (1874), 98-102.

<sup>2</sup>*Ibid.*, 142.

urgent wants. Moreover there is a limit beyond which it is not true that equal amounts of high incomes subserve equally pressing wants. When we get to very high incomes they generally satisfy wants which are of equally little urgency or which can be equally well dispensed with. In other words, beyond a certain point the tax must become proportional. The rate of progression thus must itself be degressive, so as ultimately to arrive at proportional taxation. The ideal must be a degressively progressive tax.<sup>1</sup>

While most of the minor German writers have followed Neumann's reasoning, the celebrated authors of two widely read text-books on finance, Schäffle and Stein, rather ignore the theory of equality of sacrifice.

Schäffle maintains that the state should levy its taxes according to "the actual capacity to pay."<sup>2</sup> Property and income represent only the average capacity, and therefore, thinks Schäffle, it is necessary to supplement direct by indirect taxation in order to ascertain the actual, "individual, concrete, momentary" capacity.<sup>3</sup> But in so far as the average capacity is concerned—that which is measured by property or income—the rate cannot be proportional. For taxable capacity is very different in the higher strata of property and income from the lower strata. Large property, large income possesses immeasura-

<sup>1</sup>F. J. Neumann, "Die progressive Einkommensteuer in Staats- und Gemeindehaushalt" (1874), 146.

<sup>2</sup>"Der Staat soll alle Steuerkräfte nach Verhältniss der wirklichen Leistungsfähigkeit belasten." A. E. F. Schäffle, "Die Grundsätze der Steuerpolitik" (1880), 75.

<sup>3</sup>"Die wirkliche—individuelle, konkrete, momentane—Leistungsfähigkeit" as over against "Die Durchschnittssteuerkraft."

bly more capacity to bear taxes when taken in connection with ordinary needs, but especially so in the case of extraordinary needs. Hence the justice and equity of progressive taxation. But we cannot imagine, says Schäffle, that the progressive rate should ever reach one hundred per cent. In the actual structure of society large fortunes and incomes have important functions to fulfill—the duty of conducting large business enterprises, the collection of capital, the employment of the fine arts, the satisfaction of extraordinary needs of an advanced civilization. Hence a limitless progression would involve a crippling of necessary social services.<sup>1</sup>

Schäffle's theory depends upon his interpretation of "taxable capacity" or faculty. "Actual capacity," says he, is "the expression of the amount which the taxable economic unit can abandon to the relative support of the state, without crippling his own relative support."<sup>2</sup> Or, as he puts it in another place: "The fundamental principle of public finance is the economically relative support of the state wants as over against a not less relative support of all non-state wants."<sup>3</sup> There are individual and collective

<sup>1</sup> "Die Steuerkraft verhält sich einmal in den Höhenlagen der sozialen Vermögens- und Einkommensschichten anders als in den Tiefenlagen. *Grosses* Vermögen, grosses Einkommen ist dem ordentlichen, namentlich aber dem ausserordentlichen Bedarfsfalle gegenüber schon im Durchschnitt ungleich steuerkräftiger." A. E. F. Schäffle, "Die Grundsätze der Steuerpolitik" (1880), 78.

<sup>2</sup> "Die wirkliche Leistungsfähigkeit ist eben der Ausdruck dafür, wie viel die steuerpflichtige Privatwirthschaft zu der im Budgetabschied bestimmten verhältnissmässigen Alimentation des Staates ablassen kann, ohne die verhältnissmässige Eigenversorgung zu verkümmern." *Ibid.*, 23.

<sup>3</sup> "Oberstes Princip der Finanzwissenschaft ist die volkswirthschaftlich verhältnissmässige Deckung des Staatsbedarfes gegenüber

wants, private and public wants; and a truly economic method of dealing with the question must not subordinate the one set to the other. Schäffle unconsciously uses very much the same language as did Montesquieu, more than a century before.<sup>1</sup> It may be said in criticism of Schäffle firstly that the reasons he advances in defence of large fortunes are not very strong, and secondly that this definition of faculty does not tell us enough. It does not give us any test for determining how and to what extent we can measure the "crippling of one's relative support." In so far as it has any meaning at all, it implies the consumption or sacrifice theory which Schäffle is so careful to avoid. The stress is really put upon consumption, not upon production. And the theory finally resolves itself into an acceptance of the sacrifice doctrine.

Stein, on the other hand, who upholds progressive taxation only in the later editions of his work, has not only nothing to say about equality of sacrifice, but regards faculty (*Steuerkraft*) exclusively from the standpoint of production. With every capital the capacity to form new capital increases with its amount, while the wants of the owner do not increase with its amount.<sup>2</sup> This he calls the "law of capital growth."<sup>3</sup> But he explains this more closely

einer nicht minder verhältnissmässigen Deckung aller nichtstaatlichen Bedarfe." *Ibid.*, 17.

<sup>1</sup>The words of Montesquieu are: "Pour bien fixer ces revenus, il faut avoir égard et aux nécessités de l' état et aux nécessités des citoyens." "L'Esprit des Lois," xiii, 7.

<sup>2</sup>"Wohl ist es aber gewiss, dass bei jedem Kapital die Kraft seiner Kapitalbildung mit seiner Grösse wächst . . . während das Bedürfniss seines Besitzers nicht in gleichem Grade grösser wird." Stein, "Lehrbuch der Finanzwissenschaft," i (4th ed., 1878), 421.

<sup>3</sup>"Grössengesetz der Kapitalien."

as meaning that the capital-building qualities vary really only with the periodical surpluses. A definite percentage of small capital possesses relatively more power to generate further capital than an equal percentage of large capital. A millionaire, he thinks, can never get as much revenue out of each per cent of capital as a small trader. His percentage of profit is smaller. But the frequent reduplication of the smaller percentage finally makes the surplus larger than the less frequent reduplication of the higher percentage. Hence it is the surplus, or the income, which ought to be taxed progressively, not the capital. And moreover the rate of progression ought itself to decrease with the income.<sup>1</sup> But the point is that progressive taxation follows necessarily from the idea of production.

Wagner, as we already know, bases his demand of progressive taxation on what he calls the socio-political principle. Nevertheless he regards this principle as an outcome of the faculty theory, as explained by the sacrifice theory. Faculty he defines as depending on two sets of conditions, those which respect the acquisition and possession of commodities, and those which respect the use to which these commodities are put in satisfying our own wants and those of others whom we are bound to look after.<sup>2</sup> In

<sup>1</sup>“Der wahre progressive Steuerfuss soll auf der Zahl der Einkommenseinheiten beruhen, aber darf niemals als eine rein geometrische, sondern nur als eine mit jener Zahl selbst abnehmender Progression auftreten.” *Ibid.*, i, 451. Cf. 5th ed. (1885), ii, 432.

<sup>2</sup>“Die wirthschaftliche Leistungsfähigkeit einer Person liegt in zwei Reihen von Momenten, solchen welche den Erwerb und Besitz von Sachgütern, und solchen, welche die Verwendung dieser Güter zu eigner oder anderen pflichtmässig zu ermöglichenden Bedürfniss Befriedigung betreffen.” Wagner, “Finanzwissenschaft,” ii (2nd ed., 1890), § 184, p. 444.

both cases the faculty stands in the closest relation with the pressure of the tax, or the sacrifice occasioned by the tax. As regards the acquisition of commodities everything depends on the manner of acquisition, whether entirely, partly or not at all through pure personal exertion. The same proportion of different kinds of income or property may thus represent a differing economic faculty or ability; and in general the faculty may be said to increase as the element of labor decreases. Now, says Wagner, in the same way the varying amount of the same income or property connotes a different faculty, in the sense that a greater amount of income means a more than proportional faculty.

This argument, however, is defective. Wagner does not tell us *why* a varying amount of property connotes a different faculty. The larger sum may be the result of labor, the smaller one not. On this hypothesis the very reverse of Wagner's argument would be true. From the standpoint of production Wagner hence does not prove his case. He thus substantially rests his argument on the equality-of-sacrifice theory, from which he deduces progressive taxation on the ground that the sacrifice varies with the varying amount of the "free" income.<sup>1</sup> But here again he stands quite or almost alone in trying to prove that the equality-of-sacrifice theory leads to progressive taxation, only on the assumption that it is the object of the state to remove inequality of fortune. Unless we grant this, so runs his rather weak reasoning, equality of sacrifice can lead only to proportional taxation.<sup>2</sup> Weak reasoning, I say,

<sup>1</sup>Wagner, "Finanzwissenschaft," ii (2nd ed., 1890), § 184, p. 446.

<sup>2</sup>*Ibid.*, 455, and esp. 381-386.

because the sacrifice imposed on the individual depends on the property taken away from him, not on any theory of state activity. Wagner's discussion is colored all through by this peculiar view of what he calls the fundamental principle of taxation.

Von Scheel takes about the same position as Wagner. He defines faculty as "the whole income (after deducting expenses of production) which can be demanded for purposes of taxation with due regard for the preservation of the standard of life."<sup>1</sup> This standard of life, says von Scheel, must be looked at from the socio-political point of view. In order to enable the lower classes to preserve this standard, taxation must be progressive, for the lower down we go in the social scale, the smaller will be the proportion of income to standard of life. It is the function of the state to preserve the balance between the classes.<sup>2</sup>

The socio-political argument of Wagner and von Scheel has already been criticised and discarded.<sup>3</sup> We may therefore pass it over in this place.

Gustav Cohn's recent work on the science of finance also advocates progressive taxation,<sup>4</sup> but as it does not add anything at all to Neumann's views it also may be passed over.

The Austrian economist, Meyer, defines faculty very vaguely as the "whole of the economic condi-

<sup>1</sup>"Das Mass der Steuerkraft des Staatsbürgers ist sein gesamntes nach Abzug der sachlichen Produktionsauslagen für seinen Haushalt disponibles Einkommen, welches unter Berücksichtigung und Wahrung seiner Lebenshaltung für die Steuer in Anspruch genommen werden kann." v. Scheel, "Die progressive Besteuerung." In *Tübinger Zeitschrift für die gesammte Staatswissenschaft*, vol. 31 (1875), 284.

<sup>2</sup>*Ibid.*, 288, 292-296.

<sup>3</sup>Above, pp. 67-71.

<sup>4</sup>Cohn, "Finanzwissenschaft" (1889), § 212.

tions which make it possible or easy for the individual to get together the tax.”<sup>1</sup> That is to say, we must regard not alone his property and income, but the various modes in which he acquires the income and the calls upon him for consumption, or his necessary expenses. But as soon as we have regard to his wants, we are dealing with the idea of sacrifice. The principle of faculty receives its real interpretation only through the principle of equal sacrifice. But, asks Meyer, what does the principle of equal sacrifice mean? Sacrifice of what?

The common argument that a proportional tax causes a smaller sacrifice in the case of large than of small income, because it takes away the means of enjoyment only from the less urgent wants, proves too much. For the same thing is true of every progressive tax. It is a necessary consequence of the differences in the satisfaction of wants. If we attempted to arrange taxes so that they would always take away the means of satisfying equally pressing wants, it would be necessary to take from the larger income the whole difference between it and the smaller income. And this, of course, is absurd. It would be communism, not justice.<sup>2</sup> In the same way Neumann’s theory does not seem to Meyer convincing. It leads logically only to the clear-income theory, or the exemption of a certain minimum with proportional taxation thereafter.<sup>3</sup>

<sup>1</sup>“Die Gesamtheit der wirthschaftlichen Momente, welche der Wirthschaft die Aufbringung der Steuer ermöglichen oder erleichtern.” R. Meyer, “Die Principien der gerechten Besteuerung” (1883), 311.

<sup>2</sup>*Ibid.*, 331.

<sup>3</sup>This objection, as Cohen-Stuart, “Bijdrage,” etc., 119, points out, is not strictly true.



Meyer seeks to avoid these objections by declaring that the sacrifice in question consists not "in the intensity of the wants which remain unsatisfied in consequence of the tax, but in the measure in which the tax increases the average intensity of the last wants actually satisfied."<sup>1</sup> He confesses that even this interpretation of equal sacrifice cannot serve as more than a probable proof of the necessity of progressive taxation. In the case of a low rate of tax, it is hard to say whether the sacrifices are equal or not. But when we take high rates, the decision does not seem to him doubtful. In the case of a tax amounting to one-half or one-third of the income, a man who is reduced from \$1,200 income to \$600 or \$800 must beyond all question curtail his wants far more than he who is reduced from \$2,400 to \$1,200 or \$1,600. And inasmuch as it is legitimate to conclude that the effect of a smaller reduction of income will remain relatively the same, it may be asserted that the principle of equality of sacrifice connotes progressive taxation.<sup>2</sup>

This theory of Meyer has been discussed in the body of this chapter.<sup>3</sup> We have seen that it rests on a misconception, and that it does not really alter the accepted theory at all.

We come finally to the Dutch economists who have worked out the principle of progressive taxa-

<sup>1</sup>"Von dem hier vertretenen Standpunkte aus werden nun zwar die eben bekämpften Begründungen vermeiden, indem wir das Opfer nicht in der Intensität der in Folge der Steuer unbefriedigt bleibenden Bedürfnisse, sondern in dem Masse erblicken, in welchem die durchschnittliche Intensität der letzten zur Befriedigung gelangenden Bedürfnisse in Folge der Steuer erhöht wird." *Ibid.*, 332.

<sup>2</sup>*Ibid.*, 333.

<sup>3</sup>Above, p. 135.

tion through the application of the final-utility theory to the doctrine of equal sacrifice. The most prominent have been Pierson, Treub, van der Linden and Bok.<sup>1</sup> But their arguments are about all the same, and have already been summed up.<sup>2</sup> Above all their chief theories have been supplanted by a more recent work, that of Cohen-Stuart, which deserves a fuller treatment.

Cohen-Stuart begins with defining equality of sacrifice. Looked at from the subjective point of view, there are four consequences of a tax; (1) the sacrifice of the money taken; (2) the sacrifice of enjoyments which this money might have procured; (3) the sacrifice of the proportion which this amount of enjoyment bears to the total enjoyments at the disposal of the taxpayer—which he calls, for short, the sacrifice; (4) the moral effect produced, or the pain. With the latter economics has nothing to do. Now, equality of money sacrifice means that precisely the same sum be taken from every one; equality of sacrifice of enjoyments means that all shall be deprived of equal enjoyments; equality of sacrifice means that everybody is to pay so much that the total enjoyment of each shall be diminished in relative

<sup>1</sup>The chief passages may be found in:

N. G. Pierson, "Grondbeginselen der Staathuishoudkunde," 2nd ed. (1886), 312. Also an article in *Gids*, February, 1888, esp. 308.

M. W. F. Treub, "Ontwikkeling en verband van de Rijks- Provinciale- en Gemeente-belastingen in Nederland" (1885), 517.

Cort van der Linden, "De theorie der belastingen" (1887), 89-100.

W. P. J. Bok, "De belastingen in het Nederlandsche Parlement van 1848-1888" (1888), 177-178.

Two minor works are an article by A. W. Mees, "De progressieve inkomstenbelasting," in the (Dutch) *Economist*, 1889, 437; and Minderhoud te Sneek, "Bijdrage tot de kennis der inkomstenbelasting." *Vragen van den Dag*, vol iv (1889), no. 5.

<sup>2</sup>Above, p. 138.

proportion. That is, equality of sacrifice means "proportional sacrifice of enjoyments."<sup>1</sup> Cohen-Stuart takes a long time to explain this, but as we know it is nothing new, being precisely what Mill expressed in other words.

Cohen-Stuart then discusses the idea of faculty, (*draagvermogen*) and accepts von Scheel's definition. Faculty necessarily implies exemption of the minimum of subsistence; and since faculty is conditioned by equality of sacrifice, the demand of just taxation reads as follows: To tax the individual so that, above all, the amount of enjoyments of which he is deprived through the tax may be proportional to the total amount of enjoyments attainable through his economic condition, deducting that part which consists in the satisfaction of his absolutely necessary wants.<sup>2</sup>

This problem, he thinks, can be solved only by mathematics, since the relation between enjoyment and income is really a mathematical relation. Adopting the nomenclature of his Dutch predecessors and Jevons, he shows how the final utility of any commodity or of any quantity of income varies in some inverse ratio to the whole quantity. The curve

<sup>1</sup>A. J. Cohen-Stuart, "Bijdrage tot de Theorie der Progressieve Inkomstenbelasting," 33: "*Gelijk geldsoffer zoude dus verkregen worden, door ieder een gelijke som te laten opbrengen; gelijk genotsoffer, door ieder zooveel te laten opbrengen, dat allen een gelijke hoeveelheid genot derven; gelijk offer eindilijk, door ieder zooveel te laten betalen, dat het totale genot voor allen in dezelfde verhouding, evenredig dus, verminderd wordt, door m. a. w. te vergen een evenredige hoeveelheid genot.*"

<sup>2</sup>"De belastingschuldigen zoodanig te belasten, dat voor allen de hoeveelheid genot die zij door het betalen der belasting moeten derven, aan de totale hoeveelheid, direct tengevolge van hun economischen toestand, verkrijgbaar genot, met uitzondering van dat, hetwelk in de vervulling der behoeften van nooddrift bestaat, evenredig zij." *Ibid.*, 58.

which expresses this change he terms the line of utility (*nuttigheidslijn*.) He takes for granted that the line of utility will gradually fall, but then proceeds to discuss the question whether this necessarily leads to progressive taxation.

We have already seen the acutely constructed tables<sup>1</sup> by which he proves that the arguments hitherto used may be turned into a defence of proportional or regressive, as well as of progressive taxation, and that progressive taxation cannot be declared to be a necessary result of the fall in the line of utility, in order to secure equality of sacrifice.<sup>2</sup> He then goes on with his attempt to show how a definite rate of progression may be logically and mathematically constructed, and how progressive taxation may be rescued from the charge of arbitrariness. This constitutes the really constructive part of the work. He starts with the hypothesis which was already made by Bernouilli, the Russian mathematician, in 1730, that the final utility of a definite part of income varies in inverse proportion to the total income; or in other words that the same percentage of income affords everyone an equal satisfaction, *i. e.*, that the owner of \$1,000 will feel the loss of \$1 just as little or as much as the owner of \$10,000 will feel the loss of \$10, or the owner of \$50,000 the loss of \$50. This would of course mean proportional taxation. But if we deduct a certain minimum of subsistence (which Cohen-Stuart thinks an absolutely necessary condition in ascertaining real taxable

<sup>1</sup>Above p. 141. Cf. the review of Cohen-Stuart's book in *Political Science Quarterly*, vol. vii (1892), 337.

<sup>2</sup>A. J. Cohen-Stuart, *op. cit.*, 123.

ability), we would have the following scale of rates of taxation worked out by him in detail:<sup>1</sup>

Income.	Minimum exempt, \$250.		Minimum exempt, \$500.	
	Ratio of final to total ability 1 per cent.	Ratio, etc., 2 per cent.	Ratio, etc., 1 per cent.	Ratio, etc., 2 per cent.
\$500.....	0.69	1.38	0.00	0.00
1,000.....	1.38	2.73	0.69	1.38
2,000.....	2.06	4.07	1.38	2.73
5,000.....	2.95	5.82	2.28	4.50
10,000.....	3.62	7.11	2.95	5.82
20,000.....	4.29	8.39	3.62	7.11
50,000.....	5.16	10.05	4.50	8.80
100,000.....	5.82	11.30	5.16	10.05
200,000.....	6.47	12.51	5.82	11.30
500,000.....	7.32	14.10	6.67	12.90
1,000,000.....	7.96	15.28	7.33	14.10

Cohen-Stuart then proceeds on the supposition that the actual line of utility differs from his hypothetical line. Taking the figures of the last line, and assuming that the actual line curves either more or less than this hypothetical line, he constructs the following three tables according as the final utility varies inversely as the cube root of the square or of the fourth power of the income. The truth, he thinks, certainly lies between these extremes :

TAXES WHICH ARE TO PRODUCE EQUALITY OF SACRIFICE.

Income.	According to the line of the greater curve.	According to the hypothetical line.	According to the line of less curve.
\$500.....	\$10	\$10	\$10
1,000.....	25	20	16
2,000.....	64	40	25
5,000.....	220	100	46
10,000.....	555	200	74
20,000.....	1,400	400	117
50,000.....	3,500	1,400	293
100,000.....	7,000	2,000	585
500,000.....	35,000	10,000	2,925
1,000,000.....	70,000	20,000	5,850

<sup>1</sup>A. J. Cohen-Stuart, "Bijdrage tot de Theorie der Progressieve Inkomstenbelasting," 132.

It might appear that with these great differences in the figures the rate of progression of the tax would be very different. But this is not the case. In order to make a comparison he assumes that an income of \$5,000 pays in each case a tax of four and a half per cent, with \$500 exempted as minimum for subsistence. The result would then be as follows:

Income	According to the line of greater curve.	According to the original line.	According to the line of less curve.
\$500.....	0.00	0.00	0.00
1,000.....	1.04	1.38	1.75
2,000.....	2.30	2.73	3.13
5,000.....	4.50	4.50	4.50
10,000.....	6.57	5.82	5.29
20,000.....	9.11	7.11	5.92
50,000.....	10.33	8.80	8.27
100,000.....	11.19	10.05	10.06
200,000.....	12.01	11.30	11.82
500,000.....	13.08	12.90	14.09
1,000,000.....	13.88	14.10	15.76

We see what a striking similarity in the percentages results, notwithstanding the great differences in the taxes paid. And since he has chosen two extremes, Cohen-Stuart thinks that he is justified in asserting that the mean (from which the extremes vary so little) is approximately the correct scale of progressive taxation.

In other words, the conclusion is that when we neglect the minimum of subsistence, the theory of equality of sacrifice must result in a progressive scale which does not greatly vary from the original hypothetical scale, as long as we do not get into the very large incomes. In the case of very large incomes the rate of progression tends to decrease until the progression turns into proportion. Thus, the general rule may be laid down: Arithmetical

increase of the rate with geometrical increase of the income up to a definite point when progression is replaced by proportion.<sup>1</sup>

The investigations of Cohen-Stuart are acute and suggestive, but it cannot be said that he proves his point, or that he is able to lay down an approximately exact necessary scale of progression. His original table is confessedly only a hypothetical arbitrary one; and it is hard to see how three hypothetical scales can prove the existence of one real scale. All three may be perfectly justifiable or absolutely unjustifiable in themselves; but the mere fact that they approximately agree does not in the least prove that any of them is correct. They may all be wrong. We do not know whether the final utility is inversely proportional to the income, or to the cube root of the square, or to the cube root of the fourth power, or of any power of the income. One table is as good as another, but each is equally incapable of proof. Cohen-Stuart's tables depend not only on the arbitrary assumption of a definite ratio of final utilities, but also on the equally arbitrary assumption of a definite minimum of subsistence. As soon as we exempt a different minimum, or do not exempt any minimum at all, the scale is altogether changed. To measure the amount of sacrifice in such a manner as to produce a mathematical equality of rate is absolutely impossible. Mathematics cannot help us here, because the very first conditions fail us—the power to gauge with precision the mathematical relation of the final utilities. Psychological relations cannot be reduced

<sup>1</sup>“Arithmetische klimming van het percentage bij geometrische klimming van het inkomen, zoolandg men mit in zeer hooge percentages komt.” *Ibid.*, 168.

to exact quantitative forms. And thus Cohen-Stuart's laborious investigations do not succeed in creating anything more positive than did those of his predecessors.<sup>1</sup>

<sup>1</sup>The very recent essay of the Italian Graziani, "La Ragione progressiva del Sistema Tributario in rapporto al Principio del Grado Finale d'Utilità" (in *Giornale degli Economisti*, Serie Seconda, Anno ii (1891), 156), follows the work of Cohen-Stuart, and accepts his conclusions, without recognizing the inherent weakness of the argument. On the other hand, the recent work of the Spanish economist Piernas-Hurtado, "Tratado de Hacienda Pública" (1891), confesses that no exact or mathematical relation can be established. But the author nevertheless posits the principle of "liquid assets," *haberes líquidos*, as the basis of taxation, meaning by this a determination of the individual economic situation, as gauged by the necessary expenses. This, he thinks, means neither proportional nor progressive taxation, but an adjustment to each individual case. Cf. vol. i, 302, 312. This is obviously too vague to be made the basis of a scientific discussion.



## CHAPTER IV.

### CONCLUSION.

We have thus far learned the chief arguments urged for and against progressive taxation. We have seen the inadequacy of the socialistic and compensatory theories in favor of, and the weakness of the benefit theory in opposition to, the doctrine of progression. And we have analyzed more closely the equal-sacrifice doctrine and found that it is unable to serve as the basis of a definite and infallible scale of progression. Are we then to abandon progressive taxation in theory? It seems to me not, and for a convincing reason. We must revert to the fundamental conception of faculty or ability, which is after all the best standard we have of the measure of general obligation to pay taxes. What does the faculty theory in its wisest interpretation teach us in the matter?

President Walker's definition of faculty is well known.<sup>1</sup> Faculty, says he, is "the native or acquired power of production." But if we analyze faculty more closely, in the sense in which we instinctively use the word in tax matters, we see that it means something more than that. It not only implies native or acquired power of production, but includes at least also the opportunity of putting these powers to use, the manner in which the powers are actually employed

<sup>1</sup>F. A. Walker, "The Bases of Taxation." *Political Science Quarterly*, iii (1888), 14.

and the results of their use as measured by periodical or permanent accretion to the producer's possessions. We have seen how the original idea was that represented by President Walker, but how this was soon supplanted by the more real and practicable tests, first of property (or permanent accretion), then of income (or periodical accretion). But, furthermore, faculty connotes an additional conception. It means not only powers of production or results of powers of production, but also the capacity to make use of these powers or these results—the capacity in other words of enjoying the results of the exertions. It is this latter conception which has been developed by recent writers, although they have carried it to an extreme just as one-sided as that represented by the advocates of the earlier theories. The elements of faculty, then, are two-fold—those connected with acquisition or production, and those connected with outlay or consumption. What is the application to the matter in hand?

If we regard only the first set of elements, it is evident that the possession of large fortunes or large incomes in itself affords the possessor a decided advantage in augmenting his possessions. The facility of increasing production often grows in more than arithmetical proportion. A rich man may be said to be subject in some sense to the law of increasing returns. The more he has, the easier it is for him to acquire still more. The initial disadvantages have been overcome. This was pointed out already by Adam Smith when he said. “A great stock, though with small profits, generally increases faster than a small stock with great profits. Money, says the pro-

verb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little.”<sup>1</sup> While the native power of production remains as before, this “acquired power” has greatly augmented. Hence, from this point of view faculty may be said to increase faster than fortune or income. And this element of taxable capacity would not illogically result in a more than proportional rate of taxation.

On the other hand, the elements of faculty which are connected with outlay or consumption, bring us right back again to the sacrifice theory. While the idea of faculty includes that of sacrifice, the two ideas are not coextensive. Faculty is the larger, sacrifice the smaller conception. Faculty includes two sets of considerations, sacrifice only one. Now, while the sacrifice theory in itself, as we have seen, is not sufficient to make us demand any fixed scale of progression, its influence in the other direction is certainly not strong enough to countervail the productive elements of faculty, which seem to imply progressive taxation. In fact, we may go further and say that the sacrifice theory, or consumption element in faculty, can certainly not be used as an argument necessarily leading to proportional taxation. If it does not lead necessarily to any definite scale of progression, much less can it lead necessarily to a fixed proportional taxation. But if we never can reach an ideal, there is no good reason why we should not strive to get as close to it as possible. Equality of sacrifice, indeed, we can never attain absolutely or exactly, because of the diversity of individual wants and desires; but it is nevertheless most probable that

<sup>1</sup>“Wealth of Nations,” book i, chap. 9.

in the majority of normal and typical cases, we shall be getting closer to the desired equality by some departure from proportional taxation. In certain individual cases even regressive taxation might accomplish the result best, in other individual cases proportional taxation would be the most serviceable. But if we take a general view, and treat of the average man—and the state can deal only with classes, that is, with average men—it seems probable that on the whole less injustice will be done by adopting some form of progression than by accepting the universal rule of proportion. A strictly proportional rate will make no allowance for the exemption of the minimum of subsistence.] It will be a heavier burden on the typical average poor man than on the typical average rich man. It will be apt to be relatively more severely felt by the average man who has only a small surplus above socially necessary expenses, than by the average man who has a proportionally larger surplus. It will in short be apt in normal cases to disproportionately curtail the enjoyments of different social classes.

Hence, if we base our doctrine of the equities of taxation on the theory of faculty, both the production and the consumption sides of the theory seem to point to progressive taxation as at all events neither more illogical nor more unjust than proportional taxation. It may, indeed, frankly be conceded that the theory of faculty cannot point out any definite rate of progression as the ideally just rate. In so far there seems to be some truth in Mill's contention that progressive taxation cannot give that "degree of certainty" on which a legislator should act; as well as in McCulloch's assertion

that when we abandon proportion we “are at sea without rudder or compass.” It is true that proportion is in one sense certain, and progression is uncertain. But their argument proves too much. An uncertain rate, if it be in the general direction of justice, may nevertheless be preferable to a rate which, like that of proportion, may be more certain without being so equitable. Half a loaf is better than no bread. Stability is assuredly a good thing. But it is highly questionable whether a stability which is necessarily unjust is preferable to an instability that works in the general direction of what is recognized as justice. All governmental actions which have to do with money relations of classes are necessarily more or less arbitrary. The fines imposed by the courts, the fixing of the rates of import duties or excise taxes are always, to a certain extent, inexact. And in truth, a strict proportional tax, if we accept the point of view mentioned above, is really more arbitrary as over against the individual taxpayers, than a moderately progressive tax. The ostensible “certainty” involves a really greater arbitrariness.

So, also, the other arguments often advanced against progression seem to be in some measure destitute of foundation.<sup>1</sup> The common objection that progression is confiscation because it must finally end by swallowing up the whole capital may be completely obviated, as we have seen, by making the rate of progression itself degressive; so that it would become impossible to reach one hundred per cent or any like percentage of large fortunes.

<sup>1</sup>The objections commonly urged are well summed up in Bastable, “Public Finance,” 285-289.

The objection that it is a fine put on industry and saving is really not applicable to progressive taxation as such, but rather to the whole system of taxation on property or income. The logical conclusion from this would be the demand for taxation only on expense; and even that would be to a certain extent a tax on industry. But it is hard to see why industry and saving should not be taxed, if it increases our capacity to pay taxes; and it is still harder to see how we can avoid taxing industry. Furthermore, it is a mistake to assume that larger fortunes are always the result of individual saving. The argument, in short, is not an argument against progression, but against taxation in general. If a moderately progressive tax is really more equitable than a strictly proportional tax, progression will be less of a fine on thrift and industry than proportion would be.

Finally, the argument that progressive taxes are not productive of revenue is not of great weight. The contention has never been urged that progressive taxes yield less than proportional taxes, but simply that they do not yield more. Now, as it has already been pointed out in a previous chapter, the function of progressive taxation is not so much to obtain increased revenues as to apportion the burden more equally among the taxpayers. If it is conceded that the progressive tax is more equitable than the proportional tax it is utterly immaterial whether it yields more revenue or not.

It is possible, therefore, to draw only this very vague conclusion as to the general legitimacy of the principle of progressive taxation. The practical

application of the principle depends on a series of important considerations.

In the first place we are confronted by the question of incidence. If the theory of general diffusion of taxation be true, then it makes no difference whether we levy a proportional or progressive tax. For, since the tax would ultimately be shifted to the consumer, the taxpayer would not be injured, while the consumer would bear the tax only in proportion to what he consumed. It is a singular fact that this illogical procedure of the advocates of the diffusion theory has always been overlooked. For the most heated opponents of progressive taxation have been, like Thiers, advocates of the diffusion theory of taxation, without perceiving the absurdity of their position. The diffusion theory of taxation, however, we know to be entirely unsound.<sup>1</sup> Nevertheless, in so far as taxes really are shifted at all from the taxpayer, the problem of progression loses its importance. For if taxes are actually shifted, the rate in the first instance is of no essential consequence. It is only in so far as we assume that so-called direct taxes remain where they are put, that the considerations of faculty or ability are of any weight. How far this assumption is true has been investigated in another place. For the purpose of the theoretical discussion it may be taken for granted that the problem of progression *versus* proportion must be treated on the hypothesis that the assumption is true. But when we come to construct a progressive rate in practice,

<sup>1</sup>See my monograph "On the Shifting and Incidence of Taxation." *Publications of the American Economic Association*, vol. vii, nos. 2 and 3

we must be careful to ascertain how far the assumption conforms to reality. A progressive rate of taxation which does not reach individual faculty at all is as unnecessary as it is illogical.

Secondly, the defence of progression rests on the theory that it is applicable to general taxation, taken as a whole. It rests on the assumption that taxes are paid out of revenue, and that the whole system is framed with this end in view. But it is obviously an immensely difficult task to shape a whole system of taxation so that the average general rate will be a moderately progressive one. Actual systems of taxation are of the most varied kinds. In some taxes it is impracticable to introduce a progressive scale, as they are by their very nature proportional, so, *e. g.*, tithes or poll taxes,—for a graduated poll tax is really not a poll tax at all but a class tax. In other cases the taxes in actual life are even regressive, as, *e. g.*, many of the indirect taxes. It would be impossible thoroughly to carry out the principle of general progression unless we had a single universal income tax, or a single property tax. But no scientific writer to-day favors a single income tax, or a single property tax, or for that matter a single tax of any kind. Thus in advocating the system of progression we must have regard to the facts of the individual case, and to the general sentiment of the community. In the United States, for instance, the general property tax in its practical operation is largely regressive, especially in so far as personalty is concerned. The tax reformers, as we shall see, have quite enough to occupy their attention in trying to make the rate really proportional, before bothering them-



selves with the more ideal stage of progression. But it is all the more worthy of consideration whether other taxes may not properly be levied according to the progressive principle. It is more than likely that a number of moderate progressive taxes would after all still simply result in securing an average proportional rate for the whole system of taxation. And we have seen<sup>1</sup> that some defenders of proportion in theory admit the legitimacy of certain progressive taxes as a compensation for other really regressive taxes. In practice, then, we may frequently demand progressive taxes without being at all so extreme or so "communistic" as many persons believe.

Thirdly, the defence of progressive taxation rests on the assumption of faculty as the basis of taxation. Now while this is true of taxation as a whole, for general state purposes, it is questionable whether the principle of benefits is not of some weight in problems of purely local and municipal finance. A discussion of the contest between these two principles and the limits of their relative applicability to different phases of public revenues would take us too far astray here. But it may be said that it is coming more and more to be recognized that within the domain of the taxing power the principle of benefits should be followed to some extent in strictly local finance.<sup>2</sup> If this is true, the principle of progression will be of rather more limited application to some of the charges employed for the support of local government; for the theory of benefits, as we

<sup>1</sup>Above, p. 76.

<sup>2</sup>For a discussion of these points see my article on "The Classification of Public Revenues." *Quarterly Journal of Economics*, vol. vii, p. 311 *et seq.*

have seen, leads logically to proportion, not to progression. Thus the practical sphere of the applicability of the progressive principle would be even more circumscribed.

Finally, it must not be overlooked that high rates of progression may engender or augment attempts at fraud and evasion. That this is possible cannot be denied. But, as has already been pointed out,<sup>1</sup> the danger is apt to be greatly exaggerated. We know that there is certainly more fraud in the countries of proportional taxes like America than in the home of progressive taxes like Switzerland or Germany. Still it may be conceded that with progressive rates there would probably be even more fraud than actually exists, even though the fears of the doubters in Australia and Switzerland have not been realized.<sup>2</sup> Much depends on the manner in which progression is applied, and the particular tax to which it is extended. Still more depends on the rate of the progression. The higher the progression the more likely that the results will be perceptibly bad. But the objection is really one against the abuse, not the use, of the progressive principle.

If therefore we sum up the whole discussion, we see that while progressive taxation is to a certain extent defensible as an ideal, and as the expression of the theoretical demand for the shaping of taxes to the test of individual faculty, it is a matter of considerable difficulty to decide how far or in what manner the principle ought to be actually carried out in practice.

<sup>1</sup>Above, p. 52.

<sup>2</sup>Above, pp. 53, 65.

Theory itself cannot determine any definite scale of progression whatever. And while it is highly probable that the ends of justice would be more nearly subserved by some approximation to a progressive scale, considerations of expediency as well as the uncertainty of the interrelations between various parts of the entire tax system should tend to render us cautious in advocating any general application of the principle. It remains to investigate as to how far the principle is applicable to the conditions surrounding us in America to-day. But, in last resort, the crucial point is the state of the social consciousness and the development of the feeling of civic obligation.

### III.

## APPLICATION OF THE PROGRESSIVE PRINCIPLE TO AMERICAN TAXATION.

The preceding discussion has brought us to a general, but somewhat vague, conclusion in favor of the theory of progressive taxation. Economists, however, must deal with what is actually practicable, as well as with what is ideally true. And it is with this practical object in view that we now proceed to a consideration of the concrete facts of American public finance.

In the case of the general property tax the progressive principle would seem to be inexpedient, for several reasons. In the first place, the tax as actually administered is not progressive nor even proportional, but regressive. Our attempt to tax intangible personalty leads to a heavier burden on those who are at the same time honest and fairly well-to-do than on those who happen to be both dishonest and wealthy. Since the temptations to evade the tax are apt to grow with its size, it may be assumed that fraud will increase in proportion to wealth. To augment the tax rate on the wealthier would therefore simply increase dishonesty. Progressive taxation of personal property would result in the less well-to-do classes bearing a still greater proportion of the taxes than they do at present. Instead of greater equality we would have greater inequality. Progressive taxation of personalty under actual conditions would be an utter delusion.

Secondly, progressive taxation of real estate would demand, as a preliminary condition, a complete reform of most of our tax-laws. As a general rule the American commonwealths do not pay any attention to the question whether or not the realty is mortgaged. They generally tax the landowner on the full value of the land, and very frequently tax the mortgagee in addition on the amount of the mortgage. Now, unless we exempt the value of the mortgage from the value of the land, a progressive rate on realty would create far more inequality than exists at present. Let us assume two land-owners, A, the owner of a \$10,000 farm mortgaged for \$5,000, and B, the owner of a \$100,000 farm mortgaged for \$95,000. The equity is the same in each case, and under any rational system of taxation both A and B would pay on only \$5,000.<sup>1</sup> Each would then be taxed on what he really has, not on what he has not. But the prevalent American system makes of the tax on real estate a real tax, not a personal tax, *i. e.*, the tax is levied not on the landowner as such, but on the land. If it were levied on the land-owner the tax would be a personal tax, *i. e.*, a tax on the person, and the government would be bound to take account of the existing debts. But as it is levied on the land, not on the owner, the government looks to the land alone and maintains that the personal condition of the owner is

<sup>1</sup>Unless, indeed, the mortgages in the hands of the mortgagees are exempt. In this case the government would be justified in making the land contribute its share; for it is immaterial to the mortgagor whether he pay the tax directly to the government, or indirectly by being charged a higher rate of interest on the loan, in case the mortgagee is taxed. *Cf.* my essay on "The General Property Tax," 35, and the limitations of the theory in the monograph "On the Shifting and Incidence of Taxation," 135-139.

immaterial. Now if a progressive tax were introduced, A would pay, let us say, two per cent on \$10,000 or \$200, while B might pay five per cent on \$100,000 or \$5,000. B's entire equity would thus be swallowed up by the tax, and although he is actually in no better condition than A, he would have to pay not five times, but twenty-five times as much. Progressive taxation under the existing system of real estate taxation would thus be a gross injustice, utterly ruinous to a large class of farmers. For even assuming the possibility of the shifting of a proportional tax on land (which is in itself very questionable),<sup>1</sup> it is evident that a progressive tax of this kind can not be shifted. In fact every treatise thus far written on the shifting of taxation tacitly assumes the tax to be a proportional tax. It would be interesting to trace in detail the qualifications to be introduced in the theory of incidence in the case of progressive rates, not only in the property tax, but in other taxes as well.

Thirdly, the very fact of our property tax being in great part a real tax would militate against the introduction of the progressive principle. The basis of progressive taxation, as we have seen, is the faculty theory of taxation, resolved into its elements of consumption and production. A progressive property tax can be defended only on the assumption that faculty increases with general property. But when we assess the tax not on the individual as such, but on his realty wherever it lies, and on his personalty wherever we can locate it, we are looking not at the individual, but at the taxable object. The owner of

<sup>1</sup>See my monograph "On the Shifting and Incidence of Taxation," 95-99.

a large piece of real estate may in reality have less faculty or ability to pay taxes than the owner of a small plot, because he may have very much less personalty. If we could reach personalty as well as realty then, indeed, it would be immaterial. But since personalty evades taxation in the ratio of its extent and of the amount of the tax, a progressive tax on realty, under existing conditions, might intensify the actual inequalities. To tax A, the owner of a \$10,000 farm (who has perhaps \$1,000 personal property), five per cent, and to tax B, the owner of a \$1,000 lot (who has the remainder of his large fortune invested in intangible personalty, on which he pays nothing), only one per cent would be a travesty of justice.

But fourthly, the chief practical objection to the introduction of the progressive principle is that it would be exceedingly difficult to apply it to the taxation of real estate, if the prevalent method of assessing the tax as a real tax be followed. The tax varies with the value of the lot, not with the property of the lot owner. Lot A may be worth more than lot B, but lot A may be owned by two persons, and lot B by only one person. Or the owner of the smaller lot B may have a hundred other small lots in other parts of the city, while the owner of lot A has only that one lot. A higher tax on A because it is the larger lot would be absurd. The large land owner, provided he distributes his holdings, would pay absolutely lower rates of taxation than the small land owner whose holdings are massed together. The only result of this would be a tendency to divide land into infinitesimal parts.

It is true that such a method of taxation would tend to split up large estates. This was indeed one of the avowed objects of the recent graduated land tax in New Zealand, whose influence is already perceptible. But the splitting up of large estates does not necessarily mean the abolition of large fortunes in landed property. It may indeed tend to prevent the successful competition of an agricultural country with its rivals in the world market, in so far as cheap wheat raising depends on the economies of production on a large scale. But there is no reason why one man should not own a hundred small farms, rented out by him to cultivators, instead of a single large farm. Progressive land taxation would therefore not necessarily result in the development of a class of small independent farmers or peasant proprietors. Small farms do not imply small independent farmers; they may mean small tenants or farm hands of a large farmer or a large landed proprietor. And in the case of city real estate, where the chief complaints against the unearned increment are urged, there is absolutely no doubt that large landowners would distribute their holdings. The net economic result of a progressive property tax levied on the land, instead of on the landowner, would thus be in the first place a change, not in land fortunes themselves, but in the constitution of land fortunes; and in the second place a probable diminution in the capacity of the country to compete in the markets of the world. But the fiscal results would be insignificant. Ultimately the tax would tend to be levied only on the lowest class. For no plot would now exceed in size the smallest area on which the lowest rate is assessed. In other words, the progressive



tax would virtually turn out to be a proportional tax. A progressive tax on land is not a progressive tax on the landowner.

Considering, therefore, these four objections, it is plain that until a complete change is made in our system of the general property tax, it would be useless and worse than useless to introduce the progressive principle. We should be jumping from the frying pan into the fire.

We come next to the income tax. The income tax in the United States was until recently not a practical question. The few existing income taxes in our American commonwealths are even more farcical in their administration than the general property tax. And it is utterly idle to suppose that the latter will be supplanted by the former, or that any better results could be obtained by attempting to assess a man directly on his income rather than on his property. For some kinds of property at all events are tangible, while the income even from tangible property is frequently more or less uncertain and inscrutable. At the same time recent events have shown that a federal income tax, either as a war measure, or as a tax supplementary to the existing sources of revenue, is within the range of practical politics. In this case it would perhaps seem that the progressive principle might not illogically be applied in the future, as it has been in the past. We might base the demand, so it might be urged, not only on the general economic theory of faculty, but also on the special compensatory theory. For, as we know, one need have no socialistic leanings to advocate the special compensatory theory. It will be remembered that Secretary Fessenden

advocated the progressive income tax during the Civil war on the faculty theory,<sup>1</sup> while on the European continent it is generally upheld on the special compensatory theory. The practicability of a graduated scale, however, depends to some extent on the methods of assessment and the extent of foreign investments. Where a large part of the income received by the citizens is drawn from capital invested abroad, not only will the ascertainment of income be more difficult, but all the possible complexities of a double taxation will be introduced. Where, on the other hand, the income is chiefly derived from home sources, the problem will be simpler. From this point of view a progressive income tax would probably be less successful in England than it would be in many other countries whose holdings in foreign investments are less extensive.

A far more important consideration, however, is the actual form of the income tax itself. This is evidently not the proper place to discuss the details of income taxation.<sup>2</sup> But it may be stated that there are two chief methods of arranging an income tax. The one method as exemplified in the most successful of all income taxes—the English—is to split the income into schedules, according to the source from which it is derived, each schedule or set of schedules being assessed separately by different officials. This might be termed the scheduled or stoppage-at-source income tax. The other method, as in the Prussian

<sup>1</sup>See above p. 60.

<sup>2</sup>In a forthcoming monograph on "The Income Tax" an attempt is made to discuss its history and theory in detail, and to show its connection with the reform of American taxation.

tax and the American taxes during the Civil war, is to assess the income as a whole in a lump sum and to levy the tax directly on the income receiver, and not in the first instance on the income payer. This might be called the lump-sum income tax. Experience has shown that the scheduled tax is far preferable to the lump-sum tax. England after experimenting with the latter long since abandoned it for the former. Yet it is plain that the progressive rate is very much more difficult of application to the scheduled than to the lump-sum income tax. If an income is derived in equal proportions from each of, let us say, five sources or schedules, it would pay very much less than an equal income derived wholly from any one source. Let us assume that the progressive scale is so arranged that the rate is fixed at two per cent for \$10,000, and that it increases one per cent for each successive \$10,000. A has an income of \$50,000 derived equally from each of five sources. He will pay the normal rate, or two per cent, on each schedule; that is, his tax will be five times \$200 or a total of \$1,000. B has the same income which happens to be derived entirely from one source or schedule. He must pay six per cent on \$50,000 or a total of \$3,000. An ostensible progression of rates would thus result in the same amounts of income paying very different amounts of tax. Such an inequality would be intolerable.

We are thus reduced to the dilemma: A progressive income tax corresponds to the demands of ideal justice; but a lump-sum income tax is in practice more or less of a failure; and a scheduled income tax is not susceptible of graduation. The desirable, therefore, is not practicable; that is, it is practically

undesirable. In other words, a really successful progressive income tax is an infeasibility.

In our recent income tax bill of 1894, the system is essentially the undesirable and discredited lump-sum or personal-income plan. But yet in one point,—and a very important one,—the scheduled idea has been introduced. Corporations are directed to pay the income tax on stock and bonds, and then to withhold the amount of the tax from the dividends or interest. Had a progressive tax been imposed, it would have been necessary to levy the highest rate on *all* dividends or coupons. For if the lowest rate were levied on, let us say, \$10,000, it is plain that every one would split his corporate holdings into blocks of \$10,000, and invest each of these in a different corporation or assign interest in his holdings to dummies or obscure relatives. But if the highest rate were levied on all corporate holdings, it would lead to crying injustice unless individuals were allowed a rebate amounting to the difference between the highest and the lowest rate, whenever they swear that their entire income falls within the limit at which the lowest rate is imposed. But as soon as such an oath is permitted the whole advantage of assessing incomes at the source disappears, and the door is opened to all the frauds inseparable from a personal lump-sum income tax. The whole machinery of assessing the tax to the corporation in the first instance might as well be abandoned. Congress then acted correctly in refusing to accept the proposed amendment in favor of a progressive scale. The serious mistake that was made,—not to mention minor points like the grossly exaggerated minimum of exemption,—was the adop-

tion of the personal lump-sum plan instead of the scheduled or stoppage-at-source plan. But that is a point which does not directly affect the present discussion.

Our decision must therefore be adverse to the application of the progressive scale to income taxes under actual conditions. The advantages of graduation turn out on closer inspection to be illusory.

In regard to the corporation tax the progressive, or rather the degressive, principle has already been applied in some of our commonwealths.<sup>1</sup> From one point of view these progressive rates may indeed be defended. The larger the earning capacity of the corporation, the more valuable the privileges received from the state and the greater its chances of successful competition with smaller rivals. This implies the production side of faculty. But it is highly questionable whether the more important consumption side of the faculty theory is at all applicable to corporations. A corporation is nothing but a fictitious entity, a juristic personality. It has no wants, no desires of varying urgency. We cannot properly predicate of it any equality or inequality of sacrifice. When the state taxes the corporation, it really seeks to tax the owner of the corporation and the bondholders as well as the shareholders. It is not the corporation as such, but the individuals whose capital is invested in the corporation, who are the real taxpayers. When we speak of the principle of equality of taxation, we mean equality as between individuals in the community. A corporation is simply an association of individuals, to each of whom the fiscal test of equality must be applied. This is evident from

<sup>1</sup>See above p. 63.

the fact that the tendency in all those states which endeavor to avoid double taxation is to exempt from the personal property tax the shareholders of corporations which are already taxed on their capital stock.<sup>1</sup>

Now, there is no necessary connection between the total earnings of a corporation and the total earnings of a shareholder. In the first place the small corporation may be owned by a few shareholders, while the stock of the large or more successful corporation may be distributed among hundreds or thousands of individuals. A progressive rate on the larger or more successful corporation might then involve an actually regressive rate on the shareholders. The rich stockholder in the small road would pay not more, but less, in proportion than the poor stockholder in the large road.

Secondly, even assuming that the stockholders have equal shares in the two roads, we know absolutely nothing about their other sources of income. If all income were derived from corporate property alone, and from no other source, the matter would indeed be simple. But in the existing complexity of industrial relations the revenue from corporate holdings may constitute the entire subsistence of one man, and a most insignificant fraction of the total income of his neighbor. The faculty theory of taxation, especially from the consumption side, can be predicated only of the entire income of an individual. A progressive tax on larger corporations, then, is quite as apt to be a regressive rate on the particular stockholder. Instead of having progression we would

<sup>1</sup>See my article on "The Taxation of Corporations." *Political Science Quarterly*, v, 661.

have upside-down progression. Only on the assumption that the progressive rate is applied to all incomes and to all other forms of property as well as to corporate income or property, would this objection be removed. But even then, the force of the first objection would not be diminished a whit. And when we bear in mind the complexities introduced by the facts of double taxation, due to the lack of harmony in our various commonwealth laws,<sup>1</sup> the difficulties will be sensibly increased.

A progressive corporation tax, then, does not necessarily mean a progressive tax on the individual shareholders, and still less a progressive tax on the individual bondholders. It may mean just the reverse. The application of the progressive principle to corporations is therefore of very dubious expediency.

The case is quite different, however, with the inheritance tax, a term commonly applied not only to inheritances proper, but to successions of any kind, whether by gift, devise, bequest, or devolution in general. The two most significant developments in recent American finance are the growth of the inheritance tax and the extension of the corporation tax. In some commonwealths the entire state revenue bids fair soon to be derived from these two sources alone, thus enormously simplifying many of our perplexing problems. The clamor for a progressive rate in the inheritance tax is constantly growing in the United States. We have both in theory and in practice repeated examples of graduated succes-

<sup>1</sup>See my monograph on "The Taxation of Corporations," *Political Science Quarterly*, vol. v, esp. p. 646 *et seq.*

sion duties.<sup>1</sup> It has already been noted that writers like John Stuart Mill, who are most conservative in their opposition to progressive taxation in general, yet uphold the progressive principle in the case of inheritance taxes.

There are three arguments on which it is possible to base progressive inheritance taxes. The first argument is that which rests on the limitation-of-inheritance theory. The tax is regarded by some merely as a limitation upon the legal privilege of inheritance imposed by the state in the public interest; with the further qualification that it is the duty of the state to check the growth of inordinately large fortunes and to favor the diffusion of wealth. The progressive principle would be the most convenient way of attaining this result.

This argument, however, is somewhat questionable. For even if we adopt the theory that the tax is to be regarded as the exercise of the state's power to regulate the privilege of inheritance, it does not follow that the state has any duty to redress by legislation existing inequalities in fortune. The state has, indeed, the right and the duty to put all on an equal plane of competition, and, with this end in view, may enact laws which seemingly restrict individual action, but which actually confer upon the members of society a wider and more real liberty. But this is a very different thing from settling upon an arbitrary limit beyond which the amassing of wealth is to become illegal, and from using the pro-

<sup>1</sup>For an exhaustive discussion of the inheritance tax in theory and practice, see the monograph of one of my students, Dr. Max West, entitled "The Inheritance Tax," and published in the *Columbia College Studies in History, Economics and Public Law*, vol. iv, no. 2 (1893).



gressive scale to obtain this end. The whole question, however, depends on the limits that we assign to the family idea of property. As Dr. West has well pointed out, the right of inheritance within the family is already greatly restricted by the freedom of bequest, while on the other hand inheritance and bequest are not only not natural rights, but are not even necessary consequences of the rights of private property.<sup>1</sup>

The second argument is that which we have learned to know as the economic argument. This is more convincing, because it is based on a sounder theory of the inheritance tax itself. According to this view an inheritance, using the word in the wider sense, is simply a fortuitous income, a chance accretion to property, which augments the faculty of the individual and which, just because of its accidental or unearned nature, is a most fitting subject of taxation. For since income connotes a regular periodical revenue the inheritance would normally not be affected by an income tax;<sup>2</sup> and since the general property tax is exceedingly ineffective in its operation, the taxation of inheritances is the very best way of reaching the property, even if it is reached only once. All the considerations already urged, which apply to the progressive taxation of faculty, whether we find the test of faculty to be income or property, apply with equal force to the inheritance

<sup>1</sup> Cf. West, "The Theory of the Inheritance Tax," *Political Science Quarterly*, viii (1893), 427-431.

<sup>2</sup> The income tax section of the tariff bill as passed by the House of Representatives in January, 1894, curiously enough contains a clause by virtue of which inheritances and successions are to be considered a part of the annual income. This is unscientific and would tend to create much confusion.

tax. From the standpoint both of production and of consumption, true equality in taxable faculty means progressive taxation of inheritances. Moreover, scarcely any of the objections which attach to the progressive rate in our general property tax applies here.

The third argument is what we have termed the special compensatory argument. This alone would suffice even if the other arguments were inadequate. For even granting that proportion is the ideal to be kept in view, it may be said with some measure of truth that our existing taxes fall with less severity on the wealthier classes. Not only are many of our indirect taxes regressive in their nature, but the general property tax, in its practical operation, is scarcely less objectionable in this respect. A progressive rate in the succession duties, especially where personalty is concerned, would simply tend to reestablish the desired proportionality. Advocates of general proportional taxation in theory might, therefore, uphold progressive inheritance taxes in practice.

Finally, there are other taxes to which the principle of progression might be applied. The ultimate form which taxation in America is to assume is already discernible. National revenues in the future, as to a great extent in the past, will be derived from a well considered system of indirect taxes, possibly supplemented at intervals by some form of a direct land or income tax. State revenues will be derived almost exclusively from corporation taxes and inheritance taxes; while real estate will be relegated to the local divisions. The one difficult point will still be the complete taxation of individual faculty. The

taxation of intangible personalty has always been a failure; a direct tax on income would not succeed a whit better. And yet how can we reach the entire individual faculty? The real estate tax will reach one portion, the corporation tax generalized and corrected will reach another large portion, and the inheritance tax will greatly lessen the inequality resulting from the non-taxation of other elements of faculty. But the gap will not be entirely filled; it can be removed only by some forms of taxation which will indirectly and roughly it is true, but none the less surely, reach those earnings, which are derived neither from land nor from corporate holdings. Such earnings are chiefly those from business and from personal exertions. And it is highly probable that the future system, based upon complete interstate comity and the avoidance of double taxation, will bring with it some attempt to reach these earnings either through a taxation of rentals, both business and private, like that existing in France, or through a more skillfully devised mode of business taxation. When these supplementary forms of taxation are created, to replace, in good part, our unworkable tax on intangible personalty, it may be found that both the economic and the special compensatory theories will serve as the bases of a moderately progressive system. But in the latter tax especially, the graduation may be more ostensible than real, because of the very rough approximation to actual taxable capacity.

We see then that while progression of some sort is demanded from the standpoint of ideal justice, the practical difficulties in the way of its general application are well nigh insuperable. Progression

is defensible only on the theory that the taxes are so arranged as to strike every individual on his real income. But in default of a single tax on incomes, which is visionary, practicable tax systems can reach individual incomes only in a very rough and round-about way. Under such practical conditions it is doubtful whether greater individual justice will be attained by a system of progression than by the simple rule of proportion; and it is questionable whether the ideal advantages of progression would not be outweighed by its practical shortcomings. For the United States at all events, the only important tax to which the progressive scale is at all applicable at present is the inheritance tax. For the future development of the idea we must rely on an improvement in the tax administration, on a more harmonious method of correlating the public revenues and on a decided growth in the alacrity of individuals to contribute their due share to the common burdens.

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